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RURAL INFORMAL CREDIT MARKET IN UTTAR PRADESH

SPONSORED BY

NATIONAL BANK FOR AGRICULTURE AND RURAL DEVELOPMENT
MUMBAI

Ajit Kumar Singh

GIRI INSTITUTE OF DEVELOPMENT STUDIES
SECTOR O, ALIGANJ HOUSING SCHEME
LUCKNOW-226 024

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PREFACE

Informal credit markets continue to play an important role as a source of rural finance in the country in spite of the sizeable expansion of the institutional sources of credit. At the same time the nature and role of the informal rural credit market show considerable variation across different regions of the country depending upon the prevailing socio-economic conditions. The present study examines in depth the role and functioning of the informal rural credit markets in Uttar Pradesh, a backward agricultural region in northern India.

The study throws light on the extent of rural indebtedness and the relative importance of informal credit market vis-à-vis the formal credit market in meeting the credit needs of different segments of the rural households. The study also examines the related issues of interlocking of rural credit market with other agrarian markets and dominance and dependence between the lender and the borrower. The relative interest rates and transaction costs of borrowing in the formal and informal credit market have been worked out and the perceptions of the borrowers about the working of the rural financial institutions and informal sector moneylenders have been analyzed.

The study is based upon a field survey of 510 rural households selected randomly from 10 villages of U.P. spread over different regions of the state. In addition 90 rural moneylenders were also interviewed to examine the supply side of the informal sector credit.

The field survey was carried out during the winter months of 1998-99.

The report is arranged in eleven chapters. Chapter I provides a detailed review of literature on the rural informal credit market. Chapter II outlines the objectives and methodology of the study and provides a brief discussion of the features of the study area. The growth of institutional credit in Uttar Pradesh is traced in Chapter III. Socio-economic characteristics of the sample households and their agricultural economy have been discussed in Chapters IV and V respectively.

Major findings of the study have been presented in Chapter VI to Chapter X. Chapters VI and VII deal with the demand and supply side of rural credit market respectively. Transaction costs and perceptions of borrowers about the formal credit institutions and private moneylenders have been discussed in Chapters VIII and IX respectively. Chapter X analyses the inter-linkages in credit transactions. The last chapter presents the main findings and recommendations of the study.

I would like to express my thanks to NABARD for giving a handsome grant-in-aid for undertaking this study. I am particularly thankful to Dr. A.K. Bandyopadhyay and Dr. T.N. Jha, General Manager and Deputy General Manager, NABARD respectively for the keen personal interest they took in the present study and the fruitful discussions held with them about the findings of the study at various stages.

I would also like to thank Shri Yashvir Singh and other officers of UP Cooperative Bank for the kind help they extended in facilitating the field trips of our research team. I also express my appreciation for the hard and meticulous work done by the project research staff comprising Sarvashree SK Trivedi, BS Koranga, MMK Gupta and KS Deoli in conducting the interviews and bearing the hardship of prolonged field visits. The onerous work of manual coding of primary data and their tabulation has also been done by them cheerfully and promptly. Thanks are also due to our respondents who willingly gave their time and shared information on their household economy.

I thankfully acknowledge the institutional support extended by the library and administrative staff of the Institute in conducting the study. A particular word of thanks is due to Shri Manoharan K. for computer processing of the report in his usual prompt, efficient and smiling manner.

I hope the study will attract the attention of and found useful by all those concerned with the task of developing and studying the rural credit system in India.

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March 30, 2000

CONTENTS

CHAPTER I

RURAL INFORMAL CREDIT MARKETS : NATURE, EXTENT AND CHARACTERISTICS

I. INTRODUCTION

A well functioning credit market is indispensable for agricultural and rural development. It serves not only to mobilize savings from the rural areas but also ensures productive use of these savings thereby contributing to the modernization and growth of the agricultural economy. The way rural credit markets function is not only important for financing the credit needs of a growing agricultural sector but also has important implications for income distribution and rural poverty (cf. Iqbal, 1988, p. 364). Not surprisingly the governments of the less developed countries find it important to intervene directly in the working of the rural credit markets. Expansion of institutional credit in rural areas has been a major concern of the governments of these countries (Adam and Vogel, 1986, p. 47). The record of these government directed credit programmes has been mixed due to the special problems encountered in the rural segment of the economy like the number of borrowers is large and dispersed, the volume of transaction is low and their output and income levels subject to sharp year to year fluctuations.

II. THE NATURE OF INFORMAL CREDIT MARKET

Scholars of rural credit markets also sometimes called rural money markets or rural financial markets have drawn attention to the marked dichotomy existing in these markets variously termed as organized and unorganized, formal and informal, and institutional and non-institutional markets. These categories are difficult to define precisely and are often used

interchangeably. The earlier discussion used the term unorganized markets (Ghatak, 1976), which was later substituted by the term non-institutional finance. In the recent discussion the term informal financial market has become more popular. Semantics apart these terms are generally overlapping and refer to more or less the same type of categories.

The two segments of the rural markets irrespective of the terminology used are marked by differences in procedures, interest rates, the degree of regulation, accounting procedures, etc. Most of the scholars regard the degree of formal control as the distinguishing feature of informal and informal markets.

According to Ghatak :

"***The unorganized market we take as that sector which operates outside the provisions of the Indian Banking Companies Act and maintains private accounts which are not audited. The organized market, contrawise, works within the provisions of the Banking Companies Act and maintains accounts which are open to audit and regular inspection. The co-operatives are included in the organized sector. Thus, while the organized sector is amenable to control, the unorganized sector is not.***" (Ghatak, 1976, p.7).

Adams and Nehman define informal credit "***as funds coming from banks, cooperatives and other officially recognized financial institutions***" (Adams and Nehman,1979, p. 7).

Timberg and Aiyar give the following definition of the informal financial markets:

"***Informal financial markets are any markets for cash finance (rather than credit in the form of goods) which do not involve directly the regular***

commercial banks, registered savings institutions or equity and debentures traded in registered securities markets. The essential characteristic of these markets is that they are far more loosely monitored and regulated than 'formal financial markets' " (Timberg and Aiyar, 1980, p. 279).

Pischke also regards lack of government regulation as the distinguishing feature of informal finance. According to him:

"*Informal finance and self finance prevail beyond the frontier of the formal financial system. Informal finance consists of borrowing and lending among individuals and firms that are not registered with the government as financial intermediaries and are not subject to government supervision*" (Pischke, 1991, p. 173).

Against the traditional view of financial dualism with formal and informal financial sectors constituting two discrete financial enclaves Ghate puts forward the view that the two sectors or the many sub-markets within each form a continuum in terms of degree of formality (Ghate, 1992, pp.860-861). To quote him:

"*At the formal end of the continuum, sub-markets (and lenders) are characterized by highly personalized loan transactions entailing face-to-face dealings with borrowers, and flexibility in respect of loan purpose, interest rates, collateral requirements, maturity periods and debt reschedulihg. At the other end is the formal sector in which the scale of operation of individual lenders is much larger, transactions are usually arms length, and loan terms are more standardized. Moreover, the formal sector is subject to a variety of regulations relating to capital, reserve and liquidity requirements, ceiling on*

lending and deposit interest rates, mandatory credit targets, and audit and reporting requirement' (Ghate, 1992, p. 861).

Ghate goes on to argue that the exact location of the dividing line in the formal–informal continuum demarcating the two sectors is a matter of choice and convention and admits that between the two ends of a continuum there is a grey area which can be regarded as semi-formal (Ghate, 1992,p.861).

Thus, the absence of formal regulation by the government or the monetary authority is regarded by most scholars as the distinguishing characteristics of the informal financial market, which sets them apart from the formal segment of the financial market which is subject to such control. It may, however, be added that the informal financial markets are neither totally uncontrolled or wholly unorganized. Several legislations have been enacted in developing countries including India to control usury by moneylenders. Under the Indian Moneylenders Regulation Act the moneylenders have to be registered with the authorized government agency and ceilings are put on the interest rates which can be legally charged. It is another matter that such Acts lack teeth and are more often than not violated in practice. Similarly, in many cases several of these markets seem large and institutionalized enough to make the term 'unorganized' inappropriate as pointed out by Timberg and Aiyar (1980, p.279). However, the fact remains that the degree of regulation or monitoring is far more limited in the case of the informal as compared to the formal financial markets (Timberg and Aiyar, 1980, p.275). Nor are the informal financial markets are bound by the formal procedure of lending and borrowing unlike the formal financial markets.

For the purpose of the present study informal rural credit market is defined to include all sources of rural credit excluding the commercial banks, cooperatives and other institutional

sources of credit. Thus the informal rural credit market corresponds to the non-institutional sources of credit. A variety of players operate in the IRFM on the supply side including professional money-lenders, traders or their agents (***arthias***), agriculturist money-lenders, friends and relatives, etc.

The informal credit market is characterized by multiplicity of agents, intimate contact between creditor and borrower, multiplicity of interest rates, lack of formal procedures and unregulated nature of business. The transactions in the IFMs are conducted in a broader framework of individual and social relationships between the creditor and the borrower unlike the impersonal transactions in the formal money markets. As Von Pischke remarks :

> "***Informal finance is tremendously diverse and is generally conducted within broader relationships, starting from kinship and extending outward to friendship and customary social bonds, and beyond to include credit associated with commercial transactions and land tenure arrangements***" (Von Pischke, 1991, p.173).

A correct and fuller perspective of the understanding of the rural credit markets emerges when the rural lending flows are seen as part of multiplex personal relations in a village social structure (Lipton, 1976, p.547). It is this perspective which has given rise to the literature on the inter-linked agrarian credit markets (Gill, 1998, p.99; Srivastava, 1989, p.493).

III. INTERLOCKING OF AGRARIAN CREDIT MARKET

The interlocking of agrarian markets (i.e. markets of land, labour and credit) occurs as the borrower and creditors face each other in more than one capacity. The examples of such

inter-locking markets are found when the landlord giving his land on lease to share croppers is also the main source of credit supply, or when landlord - moneylender is also the employer to his permanent or casual labourers, or the trader-money lender is also the buyer of the peasant's produce. Several empirical studies point out to the existence of such inter-linking of agrarian markets in India and abroad (Bardhan and Rudra, 1978; Bliss and Stern, 1982; Sarap, 1991; Bell and Srinivasan, 1989; Jones, 1980; Floro and Yotopoulous, 1991).

A lively debate has taken place both at the theoretical and empirical levels concerning the emergence and the impact of the inter-linked credit markets. It has been argued that the absence of competitive conditions in the inter-linked agrarian market the dominant party (i.e. the landlord/money lender) is in a position to exploit the weaker party (tenant/labour) by putting unfavourable conditions of transactions in one or more markets (Bhaduri, 1973 and 1983; Bharadwaj, 1974; Sen, 1981). In an elegant theoretical model Bhaduri argues that if the landlord is a monopolist in both the land and credit markets it is in his interest to keep the tenant in a perpetually dependent position by simply lowering the latter's share in output (Bhaduri, 1973).

Bharadwaj similarly argues that the competitive assumptions are violated in a fundamental way in an agrarian economy where the character of markets is determined to a significant extent by the local patterns of power which restrict fields of feasible choices open to the weaker party in the various markets (Bharadwaj, 1974). Thus, interlocked relationships increase the exploitative power of the stronger party. Sen demonstrates the dynamic regressive consequences of interlinkages as interlinking would redistribute income towards the wealthy groups and lowers the time profile of growth (Sen, 1981).

Srivastava is of the opinion that the interlocked relationships arise out of a prior set of production relationships and the strategies of subsistence and accumulation of different classes,

which may themselves change under certain conditions (Srivastava, 1989). He also finds on the basis of an in-depth study of three villages in Uttar Pradesh, that the inter-locking displays systematic inter-village features.

Several authors have attempted to show that Bhaduri's model is based on very stringent assumptions of behaviour not observed in real life and that interlinked transactions are not always exploitative (Griffin, 1974; Newbery, 1975; Ghose and Saith, 1976; Basu, 1984; Srinivasan, 1979; Pant, 1980). Others have contested the conclusions of Bhaduri on the basis of empirical studies (Bardhan and Rudra, 1978 and 1985; Rao and Subrahmaniyam, 1983; Sarap, 1991).

Several explanation for the phenomenon of interlocking of agrarian markets have been given in a neo-classical framework (Braverman and Stiglitz, 1982 and 1986; Hoff and Stiglitz, 1990). According to this view interlinked credit contracts are seen as means to alleviate screening, incentive and enforcement problems faced by the lenders (Hoff and Stiglitz, 1990). Screening problem arises from the fact that borrowers differ in the likelihood that they will default and it is costly to determine the extent of that risk for each borrower. The incentive problem is linked to the fact that it is costly to ensure the borrowers to take actions, which make repayment most likely. The enforcement problem is related to the difficulty to compel repayment. The lenders who are landlords or traders may inter-link the terms of transactions in the credit market with those of transactions in the product or rental markets (Braverman and Stiglitz, 1982 and 1986). Credit-labour market inter-linkages are one way to avoid the possibility of default by the borrowers (Basu, 1983; Bardhan, 1984). The inter-linking of credit-product market serves a similar purpose (Bell and Srinivasan, 1989). Linking of tenancy and credit contracts is seen by some as a screening device (Braverman and Guasch, 1984) or to reduce potential risks of default (Basu, 1983). Bell on the other hand argues that more than one factor

may be at work leading to inter-linked arrangement and thinks that inter-linked transactions reduce transaction costs (Bell, 1988).

IV. HIGH INTEREST RATES IN IFMs

The other feature of the informal rural credit markets that has caught the attention of scholars is the prevalence of exorbitantly high interest rates in these markets. Many scholars regarded these high interest rates as reflective of the monopoly power of the village moneylender and a means of extracting surplus (Chandavarkar, 1965; Nisbet, 1967; Wai, 1957; Pradhan, 1974). Others using a neo-classical framework have tried to explain the prevalence of high interest rates in rural credit markets in terms of factors like high-risk premium, opportunity cost and administrative costs. Bottomby attributed the high rates mainly to risk premium and cost of administering private loans (Bottomby, 1963, 1964 and 1975). It is also believed by some that low degree of monetisation is responsible for high rate of interest (Sengupta, 1957; Ghatak, 1973). Long, on the basis of the data available in the All India Rural Credit Survey Report, 1951-52 has tried to decompose the interest rate in terms of net return, risk premium and administrative cost (Long, 1968). It is also argued that the money lenders also perform a variety of services for their borrowers as payment of transport and storage cost, market taxes, commissions, etc., which may be included in the loan charges (Wai, 1957).

Using NCAER data for farm households Iqbal has pointed out that money lenders' costs especially those linked with risk are reflected in their lending rates (Iqbal, 1983 and 1988). He also found that interest rates are sensitive to personal and locational characteristics of the borrowers and the presence of bank branches leading him to conclude that monopoly surcharge though present is low. Another important finding of Iqbal was that technological progress in

agriculture leads to lowering of interest rates, which were found to be lower in the green revolution areas as compared to the non-green revolution areas.

Sarap in his study of Orissa villages found that interest rates show variations, which are related to quality of collateral and size, duration and purpose of loan (Sarap, 1991). He also found that interest rates were higher for non-linked transactions as compared to linked transactions.

Ghatak argues that a change in interest rate is inversely related to a change in probability of recovery (Ghatak, 1976, p.81). He points out that with a 70 per cent chance of recovery, the money lenders may be justified to charge 50 per cent interest rate and such rates may not contain elements of monopoly profit (Ghatak, 1976, p.83). Using a plausible rate of repayment at 90 per cent, annual rate of inflation at 3 per cent and bank rate at 4 per cent he calculates Indian rural interest rates at 22.67 per cent (Ghatak, 1973, p.86). Ghatak concludes that "the idea that interest rates are always very high and usurious in the Indian rural economy is not found to be generally valid on the basis of our study" (Ghatak, 1973, p.102).

Bandyopadhyay, on the other hand, reports a much higher level of rural interest rates on the basis of his field survey of selected villages of West Bengal and believes that the opportunity cost of capital and monopoly profit are two important components explaining the high rates of interest (Bandyopadhyay, 1976, p.117). Taking the average rate of interest charged by money lenders from land owning borrowers at 60 per cent, basic rate (opportunity cost of land owning-lenders) at 40 per cent and risk premium together with administration cost at 10 per cent he calculates monopoly profit from money lending at 10 per cent (Bandyopadhyay, 1976, p.117). The monopoly profit would be much higher from lending to other categories of borrowers who pay exorbitantly high rates of interest. Bandyopadhya also finds that interest rates show

variation according to the nature of security, duration of the loans and the size of holdings (Bandyopadhyay, 1976, Ch.VI).

V. EXTENT OF INFORMAL CREDIT MARKETS

In spite of the sizeable expansion of the institutional credit agencies in the rural areas under government directed credit programmes over the past few decades, informal sources of credit continue to play a significant role both in the urban and rural areas of the developing countries. As the authors of the World Development Report, 1989 point of informal finance is both extensive and diverse and accounts for most of the financial services provided to the non-corporate sector (WDR, 1989, p.112). Ghate remarks that the informal sector has proved more resilient than was at first assumed (Ghate, 1992, p.859). Surveying empirical studies for various countries he concludes that "the share of rural informal credit accounts for about one-third to two-thirds of total rural credit in Bangladesh and China, about two-fifths in India, Sri Lanka and Thailand and two-thirds to three-quarters in Malaysia, Nepal, Pakistan and the Phillipines (Ghate, 1992, pp.859-860). The proportion of households borrowing from the informal sector would be even more. According to another authority "***formal agricultural credit is generally used by far fewer than half of farm households, and in the majority of developing countries probably does not reach more than 20 per cent***" (Von Pischke, 1991, p.172).

According to the decennial surveys of the Reserve Bank of India the share of institutional sources in rural credit (i.e. credit provided by Government, Cooperatives and Banks) in India has gone up sharply from a mere 7 per cent in 1951 to 61 per cent in 1981, with a corresponding decline in the share of the non-institutional or informal sources of credit. Thus share of informal sources of rural credit which was as high as 93 per cent in 1951 has steadily gone down to 82.7

per cent in 1961 to 70.8 per cent in 1971 and further to 38.8 per cent in 1981. Considerable interstate variations are also revealed by these surveys with respect to the relative shares of the institutional and non-institutional sources of credit. Thus, in 1981 the share of non-institutional sources in outstanding debt in rural areas varied from 13.6 per cent in Maharashtra to 69.4 per cent in Assam (Sarvekshana, 1987, p.12). In the following states, the share of non-institutional sources in total rural credit exceeded 50 per cent even in 1981, Andhra Pradesh (59.1 per cent), Assam (69.4 per cent), Bihar (52.8 per cent), Jammu & Kashmir (56.5 per cent), Rajasthan (59.1 per cent) and Tamil Nadu (55.7 per cent).

Some scholars have cast serious doubts about the sharp decline in the share of non-institutional sources of credit as reported by these All India Rural Credit Survey Reports (Bell, 1990). Other surveys on a more selective basis reveal the continued importance of informal sources of credit in rural India. A World Bank study reports a much higher level of borrowing and larger dependence on non-institutional sources in the villages of Andhra Pradesh, Bihar and Punjab in 1981 as compared to the official surveys (Bell and Srinivasan, 1985). An ICRISAT study also revealed a similar picture (Binswanger, et.al. 1985). The share of non-institutional sources of credit was reported in the ICRISAT study at 63.7 per cent for Andhra Pradesh and 30.8 per cent for Maharashtra against the official survey estimate of 55.4 per cent and 87.8 per cent respectively. Both the studies show a much higher level of rural indebtedness as compared to all India rural credit survey.

Sarap's survey of 250 farm households in early 1980s shows that 42.8 per cent had borrowed from formal credit institutions and the access of small and marginal farmers to institutional credit was much lower as compared to medium and large farmers (Sarap, 1991, p.58). The study further revealed that 80 per cent of borrowing of the landless labourers and 51

per cent borrowing of the marginal farmers was from the informal sources of credit (Sarap, 1989, p.86).

A similar situation is reported by Jodhka for Haryana, a prosperous agricultural state. According to him informal debts accounted for 58.9 per cent of the borrowings by casual labourers, and 72.3 per cent of the borrowings of small and marginal farmers, while this proportion was less than 25 per cent in case of medium and big farmers (Jodhka, 1995, p.168).

It has also been pointed out that the growing commercialization of Indian agriculture has encouraged the rise of trader -- money lender, as the formal sector is inadequate to meet the growing credit requirements of agriculture (Gill, 1998, p.95). Empirical support for this hypothesis is provided for Tamil Nadu by Harris (1983) and for Punjab by Bell and Srinivasan (1985). Another study for Punjab shows that nearly 90 per cent of all categories of farmers take loans from the informal sector and nearly two-third farmers show a preference for the informal sector irrespective of their size of holding (Chandra, 1993, pp.131-132).

VI. ADVANTAGES AND LIMITATIONS OF INFORMAL CREDIT

The transaction costs both for borrowers and lenders tend to be lower in the informal sector as compared to the formal sector. The World Development Report, 1989 observes :

> ***"Informal financial arrangements reduce transaction costs and risks in ways denied to formal institutions. Moneylenders, for example, can operate out of their own homes or on the street, maintain only the simplest accounts, and mix finance with other business. The services they provide are outside the review***

and control of the monetary authorities. The remaining costs can be fully reflected in implicit or explicit interest rates" (WDR, 1989, p.113).

On the other hand supplying financial services to the informal sector is unprofitable for the formal institutions because of the large number of small transactions, geographically widespread clientele, absence of suitable collateral, regulation on deposit and lending rates, etc.(WDR, 1989, p.112). In fact, due to these factors formal lending institutions intentionally tend to raise transaction costs for the small borrowers to discourage them from asking for a loan (Adam and Vogel, 1986, p.482).

On the basis of several case studies from Bangladesh, Brazil and Colombia, Adam and Nehman show that the loan transaction costs appear to make up a very large part of borrowing costs for small and medium borrowers and tend to discourage them from using formal loans (Adams and Nehman, 1979, p.174). Bureaucratic procedures and corruption also tend to prevent the poor villagers from approaching formal lending institutions in rural areas (Jodhka, 1995, Ch.4). Various field studies in India have shown it is the rural rich who corner most of the concessional agricultural credit provided by the cooperatives and banking institutions (Sarap, 1991; Jodhka, 1995). As Lipton perceptively remarks, "....***if one isolates the static economics of farm finance, one is unlikely to tackle very effectively problems rooted in the social dynamics of rural credit***" (Lipton, 1976, p.548).

In spite of the advantages of speed, convenience and low transaction costs the informal finance suffers from some limitations. As the World Development Report 1989 observes :

"***Freedom from regulation allows informal agents greater flexibility. But it also derives them many of the legal sanctions available to formal***

***intermediaries. In place of formal legal mechanisms, informal agents rely on their knowledge of one another and on local sanction to reduce the risk of lending*"** (WDR, 1989, p.113).

Due to their inherent nature, informal credit purveyors generally operate in a limited localised market. They are not in a position to reap the economies of scale in their operations. The formal sector on the other hand enjoys greater economies of scale and scope (Ghate, 1992, p.861). Pischke mentions the following advantages of formal finance:

"***Advantages of formal finance include the confidentiality of institutional finance, ability to deal in relatively large amounts, confidence provided by documentation and legal practice within the formal sector, specialization and related economies of scale and growth of markets, and the convenience of transcending or complementing face-to-face relationships through postal and electronic communication systems that transfer financial claims quickly and cheaply***" (Pishke, 1991, p.211).

VII. COMPLEMENTARITY AND INTERACTIONS BETWEEN INSTITUTIONAL AND INFORMAL CREDIT MARKETS

The above discussion clearly shows that the formal and informal credit markets have their advantages in the respective areas of their operation. While informal finance tends to be particularly suited to the requirements of small and poor borrowers in agriculture, small trade and business, formal finance is better to the needs of large and medium industry, organized trade and commerce and well-to-do urban households (Ghate, 1992, p.861).

The attitude towards informal credit dominated by moneylenders has undergone a sea change over the last two decades. He is no longer looked by many as the exploitative and greedy person, but as someone performing an 'important economic function beyond the frontier of formal finance.' The malicious money lender myth has come under serious challenge by researchers and policy makers (Pischke, 1991, Ch.8). Attention has instead shifted to the study of the interaction between the formal and informal credit markets and the extent of complementarity between them. The search has turned away from finding alternative credit sources to supplement the moneylender to finding possibilities of cooperation between the formal and the traditional financial sectors.

Bhatt is of the view that informal finance plays an important development role by nurturing enterprises or entrepreneurs before they can obtain formal finance (Bhatt, 1983, p.47). Pischke thinks that "the coexistence of informal and formal finance is healthy and dynamic, permitting more people to participate in financial markets (Pischke, 1991, p.208). He advocates that efforts to develop the frontier of finance should accord considerable attention to informal financial arrangements (Pischke, 1991, p.220).

Formal and informal credit markets sometimes play a complementary role in meeting the credit requirements of their clients, many of whom draw on both the segments. Chandra, for instance, found that in Punjab villages short term credit came principally from the informal sector while the investment credit came from the formal sector (Chandra, 1993, p.94). Similar cases of complementarity are also reported in case of the industrial sector (Ghate, 1992, p.862).

Banks are also an important source of funds for traders and moneylenders operating in the informal credit market. Some studies of Bangladesh and Phillipines report that bulk of funds lent in the informal credit market originated from banks (Ghate, 1992, pp.862-863). In India,

however, available studies show a much lower level of inter-linkages between the formal and the informal credit markets, particularly in case of rural money lenders (Bell, 1990, pp.311-11).

In the earlier schemes of revamping the rural credit system through the expansion of formal credit institutions the village moneylenders had no place (RBI, 1954). However, in recent years an influential school of thought has emerged which thinks it desirable to forge deliberate links between the formal and informal segments of the credit market to expand the frontiers of formal credit and reduce the cost of financial intermediation (Adams and Vogel, 1986; Bell, 1990; Ghate, 1992).

As Ghate forcefully argues :

"..... ***the promoting competition approach is appropriate where informal lenders exercise market power and earn rents on the information they possess on borrowers. On the other hand, where informal markets are competitive but the cost of funds is high, the formal sector can seek through the promotion of linkages to pass on the benefit of lower cost funds by using informal lenders as conduits and taking advantage of their lower transaction cost***" (Ghate, 1992, pp.866-867).

Some scholars are still sceptical about this view and feel that a proper socio-economic evaluation might be needed before revising the existing image and role (Sharma, 1998).

VIII.SUMMING UP

Informal credit markets, comprising of diverse purveyors of credit outside the formal credit institutions, continue to play an important role in the developing countries particularly at

the lower end of the credit spectrum. For the poor and the small borrower - the marginal and small farmers, landless labourers, petty traders, artisans and the small entrepreneurs – they are the major and sometimes only accessible source of credit for productive as well as non-productive purposes. In meeting the credit requirements of the small borrowers they have competitive advantage over the formal sector due to their lower transaction costs, simple and flexible procedure, lack of insistence on marketable collateral, speed and timeliness of loans and intimate knowledge of the borrowers. In fact, they are often the preferred choice of borrowers in spite of the high nominal interest rates they charge.

The efforts to substitute and supplant the local moneylender by state directed programmes of institutional credit have failed to realise their objectives. In fact, growing commercialization of agriculture seems to have given a new impetus to informal credit market through the increasing role of the trader-money lender. In many situations the informal credit markets play a complementary role to the formal finance through increased supply of credit for the same or complementary purpose.

It is now being increasingly recognized that both the formal and informal financial markets have their comparative advantages in the respective areas of their operation. Hence, it would be more fruitful to develop inter-linkages between the formal and the informal financial markets to expand the frontiers of finance. Though conceptually appealing such an approach has to be viewed with caution and has to take into account the specificities of the situation. One has to differentiate situations where a complementary approach should be followed and where a competitive approach between the formal and the informal credit markets is needed.

CHAPTER II

THE PRESENT STUDY: OBJECTIVES, METHODOLOGY AND STUDY AREA

I. INTRODUCTION

Informal credit market continues to play a fairly important role as a source of rural finance in the country in spite of the sizeable expansion of the institutional sources. This is specially so for the poor sections which tend to be the discriminated against by banks and cooperatives. Moreover, informal market is the major source of non-productive purposes. The studies of rural informal credit markets show that the relationship between creditors and debtors has been changing over time. Moreover the nature of these markets show considerable variation from place to place depending upon the socio-economic conditions. There is, thus, an important need for more studies, both from research and policy perspectives, of rural informal credit markets in different socio-economic settings. The present study concentrating on Uttar Pradesh in northern India is an attempt in this direction.

II. THE STUDY OBJECTIVES

The study will focus upon the following issues:

1. What is the relative importance of informal credit market in meeting total credit needs of different segments of rural households?

2. What are the reasons for the greater dependence of the weaker sections of the rural society, e.g., small and marginal farmers, landless labourers, rural artisans on informal sources of credit?

3. To what extent creditor-borrower relationship in the informal credit market are characterized by dominance and dependence?

4. Does the presence of institutional sources of credit weaken the hold of the traditional exploitative relationships found in the informal credit markets?

5. To what extent there is an inter-linking of land, labour, product and credit markets in the rural areas?

6. What are the explicit and the implicit interest rates in the informal credit market?

7. How the transaction costs in informal credit markets compare with the transaction costs in the formal credit markets?

8. To what extent if any informal credit markets are linked with formal credit markets?

9. To what extent informal credit markets are isolated and fragmented?

10. What measures are required to regulate the informal credit markets and to integrate them with formal credit market?

III. METHODOLOGY

The study primarily depends upon field surveys by a team of experienced researchers in the rural areas of Uttar Pradesh. A multi-stage random sampling design was adopted for the

study. In the first stage one district was randomly selected from each of the five economic regions of Uttar Pradesh, namely, Western, Central, Eastern, Hills and Bundelkhand. The selected districts included Muzaffarnagar from Western region, Lakhimpur-Kheri from Central region, Azamgarh from Eastern region, Almora from Hill Region and Lalitpur in Bundelkhand region.

In the second stage one block representing average condition of the district was selected from each district. From each selected block two villages were selected for field study – one developed village having a bank branch and one less developed village at least five kilometres away from a bank branch or cooperative society. This was done to capture the effect of availability of institutional finance on the working of informal credit market.

In the final stage 50 households were randomly selected from each village. Care was taken to ensure a representative sample covering cultivating households with different size of holdings as well as landless labourers, artisans and other groups. From Azamgarh district a slightly larger sample was taken to cover the workers engaged in handloom sector. Thus, our total sample consisted of 510 rural households spread over 10 villages across different regions of the state. Details of the sample are given in Table 2.1.

Out of the total sample of 510 households 308 (60.4 per cent) belonged to cultivating households, 94 (18.4 per cent) belonged to landless labour households and remaining 108 (21.2 per cent) to other categories. Among the cultivating households 148 (48.1 per cent) were marginal farmers, 75 (24.4 per cent) small farmers, 42 (13.6 per cent) semi-medium farmers, 32 (10.4 per cent) medium farmers and 11 (3.6 per cent) large farmers. Thus, our sample is fairly representative of the agrarian structure of the state.

Table 2.1 Distribution of Sample Households by Category

(Nos.)

District and Village	Mar-ginal	Small	Semi-Medium	Medium	Large	Total Cultivators	Land-less	Ser-vice	Total No. of Sample Households
Almora									
(a) Chauna (D)	35	3	-	-	-	38	4	8	50
(b) Jhalahat (B)	23	7	-	-	-	30	10	10	50
Total	**58**	**10**	-	-	-	**68**	**14**	**18**	**100**
Azamgarh									
(a) Rasoolpur (D)	14	8	5	3	-	30	10	20	60
(b) Patar (B)	13	9	5	3	-	30	10	10	50
Total	**27**	**17**	**10**	**6**	-	**60**	**20**	**30**	**110**
Lakhimpur Kheri									
(a) Sunsi (D)	11	11	4	4	-	30	10	10	50
(b) Samrai (B)	10	7	5	6	2	30	10	10	50
Total	**21**	**18**	**9**	**10**	**2**	**60**	**20**	**20**	**100**
Lalitpur									
(a) Aera (D)	12	6	6	4	2	30	10	10	50
(b) Kadesarakala (B)	10	7	6	4	3	30	10	10	50
Total	**22**	**13**	**12**	**8**	**5**	**60**	**20**	**20**	**100**
Muzaffarnagar									
(a) Goharani (D)	10	9	5	4	2	30	10	10	50
(b) Jalalpur (B)	10	8	6	4	2	30	10	10	50
Total	**20**	**17**	**11**	**8**	**4**	**60**	**20**	**20**	**100**
All Regions	**148**	**75**	**42**	**32**	**11**	**308**	**94**	**108**	**510**

Note : D = Developed Village; B = Backward Village.

A detailed household schedule was prepared to convass relevant information on socio-economic conditions and various aspects of indebtedness from sample households. In addition interviews were held with 15 to 20 moneylenders operating in the study area whether located in

the village or in nearby towns in each district. For this purpose a separate questionnaire was developed.

IV. THE STUDY AREA

The State Economy

Uttar Pradesh is the most populous state of the country with a population of 139.1 million in 1991. It sprawls over 2.94 lakh sq.kms. covering about one-tenth of the country's geographical area. Population density at 473 per sq.km. in the state is well above the national figure of 273 per sq.km. The population of the state is growing at high rate of 2.27 per cent per annum well above the national average.

Uttar Pradesh is among the most backward state in terms of the socio-economic indicators of development. Over 80 per cent of the population of the state is living in the rural areas. Only 42 per cent of the state population is literate. As a result the economy of the state continues to be dominated by agriculture and allied activities, which provide employment to around 73.0 per cent of the workforce. The level of industrialization in U.P. is very low. Only 7.7 per cent of the workforce was engaged in manufacturing sector in 1991.

Per capita income of U.P. was only Rs.6733 in 1996-97 against the national per capita income of Rs.10,771. Around 41 per cent of the state population is below the poverty line as compared to the national average of 36 per cent. Growth rate in the state has been slow and has further decelerated in the recent years. Thus, the state domestic product registered a meagre growth of only 3.33 per cent per annum during the Eighth Five Year Plan period (1992-97).

Agriculture continues to be the backbone of the state economy. Net sown area in the state has stabilized at around 172 lakh hectares, out of which less than half is under double cropping. Presently about two-thirds of the cultivated area is irrigated. Tube-wells now constitute the major source of irrigation accounting for around two-thirds of the irrigated area.

The major constraint on agricultural development in U.P. is the very small size of holding. Average holding size has shrunk to 0.90 hectare. Out of the 200.7 lakh operational holdings in the state in 1990-91 as many as 73.8 per cent are marginal (i.e. below 1.0 hectare) and another 15.5 per cent small (i.e. between 1.0 and 2.0 hectares). These two groups account for 31.4 per cent and 24.4 per cent of total operational holding area in the state respectively.

Due to the preponderance of the small holdings cropping pattern in U.P. is still subsistence oriented, foodgrain crops notably wheat and rice accounting for 80 per cent of gross cropped area. Sugarcane and oilseeds are the major commercial crops of the state. U.P. is also a major producer of fruits and vegetables.

The introduction of green revolution technology had a tremendous impact on the agricultural economy of the state. The index of agricultural output with 1970-71 as base touched the figure of 226 in 1996-97. Between 1980-81 and 1997-98 agricultural sector in U.P. registered a growth rate of 2.5 per cent in value terms.

In spite of the marked increases in productivity levels during the green revolution period average yields continue to be relatively low as compared to those in the agriculturally advanced states like Punjab and Haryana. Thus, average yield in U.P. for the triennium 1992-95 was 23.5 qtl. for wheat, 18.5 qtl. for rice, 13.6 qtl. for maize and 582 qtl. for sugarcane.

SELECTED DISTRICTS

The selected districts for the study present a diverse scenario. Muzaffarnagar in Western region is one of the most developed districts of the state. On the other hand, Azamgarh in East U.P. and Lalitput in Bundelkhand are among the least developed districts of the state. Lakhimpur Kheri in Central U.P. is a relatively better off district. Almora in U.P. Hills presents a mixed picture being relatively developed in social indicators but lagging behind in economic indicators.

Table 2.2 presents socio-economic indicators for the selected districts. Population density is very high in Muzaffarnagar and Azamgarh but relatively low in the other three districts. The degree of urbanization is quite low in all districts, though Muzaffarnagar is relatively more urbanized. Per cent of Scheduled Castes population is also fairly high in all districts except Muzaffarnagar. In terms of literacy levels Almora is much ahead of rest of the districts. Muzaffarnagar leads in industrial development followed by Lakhimpur Kheri as both the districts have many sugar factories. Azamgarh, on the other hand, does not have a single registered factory, but has a sizeable concentration of workers in the household industries mainly handlooms. In terms of infrastructural facilities like roads, electricity and banks Muzaffarnagar is ahead of other districts, while in terms of health facilities Almora is leading other districts. Lakhimpur Kheri and Lalitpur are lagging behind in infrastructural facilities. Credit-deposit ratio is at a much higher level in Muzaffarnagar and Lakhimpur Kheri, reflecting higher level of economic activities in these districts. On the other hand, credit-deposit ratio is extremely low in Azamgarh and Almora districts, which have a poor economic base.

Table 2.2 : Socio-Economic Indicators for Selected Districts (Early 1990s)

Sl. No.	Indicators	Muzaffar-nagar (West U.P.)	Lakhimpur Kheri (Central U.P.)	Azamgarh (East U.P.)	Almora (Hills)	Lalitpur (Bundel-khand)
1.	Population (in '000)	2843	2419	1446	837	752
2.	Area in Sq. Km.	4008	7688	1713	5385	5039
3.	Population Density per Sq.Km.	709	315	844	155	149
4.	Urban Population As % of Total	24.6	10.7	16.9	6.4	14.0
5.	Per Cent of SC Population	14.0	26.9	22.1	22.0	25.1
6.	Literacy Rate (%)	56.6	40.6	59.4	80.0	45.2
7.	No. of Workers in Registered Factories per lakh of population	1024	637	-	111	15
8.	Per Capita Value of Industrial Output (Rs.)	1784	676	-	39	2
9.	Per Cent of Workers in Household Industry	1.9	0.8	12.9	0.6	1.6
10.	No. of Hospitals & Dispensaries per lakh of Population	2.8	3.5	3.5	13.1	5.1
11.	Road Length per 1000 sq.km.	376	169	364	357	176
12.	Per Capita Electricity Consumption in KWh	366	40	145	75	66
13.	No.of Bank Branches per lakh of Population	5.8	5.0	4.9	11.7	5.5
14.	Credit Deposit Ratio	53.2	49.0	16.1	22.2	42.4

Source: ***Economics & Statistics Division, State Planning Institute, U.P. Government, District-wise Development Indicators, 1995, Lucknow.***

Table 2.3 presents indicators of agricultural development in the selected districts. Agriculture remains the primary economic activity in all the districts with the share of agricultural workers ranging from 68.0 per cent in Muzaffarnagar to 87.4 per cent in Lakhimpur Kheri. Muzaffarnagar is much ahead of other districts in terms of indicators of agricultural

Table 2.3 : Indicators of Agricultural Development in Selected Districts

Sl. No.	Indicators	Muzaffar-nagar (West U.P.)	Lakhimpur Kheri (Central U.P.)	Azamgarh (East U.P.)	Almora (Hills)	Lalitpur (Bundel-khand)
1.	Agricultural workers as % of Total Workers	68.0	87.4	68.4	77.5	80,9
2.	Gross Value of Agricultural Output Per Person (Rural) in Rs.	1977	1396	745	522	1146
3.	Per Cent of Gross Cropped Area Irrigated	93.3	53.9	63.5	11.9	31.5
4.	Marginal Holdings as % of Total	65.3	70.0	41.3	47.7	9.5
5.	Fertilizer consumption per ha. of G.C.A.	158	104	89	5	38
6.	Gross Value of Agricultural Output per ha. of GCA (Rs.)	8660	5462	9585	6061	6080
7.	Average Yield of Foodgrains in Qtl./ha.	28.3	20.0	17.8	10.8	12.3
8.	Average Yield of Sugarcane in Qtl./ha.	690	531	402	591	514
9.	Gross Cropped Area per Tractor (in has.)	30	44	600	-	148
10.	Per cent of GCA Under Commercial Crops	57.5	29.0	7.6	1.2	6.9

Source: ***Economics & Statistics Division, State Planning Institute, U.P. Government, <u>District-wise Development Indicators, 1995</u>, Lucknow.***

development. Agriculture in this district is highly commercialized, with 57.5 per cent of G.C.A. under commercial crops mainly sugarcane. Because of their geographical situation Almora and Lalitpur are lagging behind in agricultural development. Lakhimpur Kheri and Azamgarh fall in the intermediate category in terms of agricultural development.

THE STUDY VILLAGES

The average population of the selected villages was 3455 and the average number of households 529. Thus our sample of 510 households consists of about 10 per cent of the total households of the selected villages. Size of population and number of households in each village have been shown in Table 2.4

Table 2.4 : Population of Sample Villages

District	Block	Village	Total Population	No. of Household
Almora	Chaukhutia Chaukhutia	Chauna (D) Jhalahat (B)	790 1612	130 265
Azamgarh	Salhiyan Azmadgarh	Rasoolpur (D) Patar (B)	17357 890	2500 113
Lakhimpur Kheri	Behjun Lakhimpur Kheri	Sunsi (D) Semra (B)	1700 1450	300 240
Lalitpur	Talbehata Bridha	Kadesara Kala (D) Aera (B)	2150 3900	360 565
Muzaffarnagar	Shamali Shamali	Goharani (D) Jalalpur (B)	2706 2000	492 325
Grand Total			**34555**	**5290**

Note : D = Developed Village; B = Backward Village.

The availability of various types of infrastructural facilities in the selected villages has been shown in Table 2.5. As would be expected most of these facilities were available within 1-3 kms. in case of the developed villages, while the distance varied from 3 to 10 kms. in case of the backward village.

Table 2.5 : Distance of Selected Villages from Various Facilities (in Km.)

District/ Village	Block Office	Near-est Town	Bus Sta-tion	Rail-way Sta-tion	Pucca Road	Comm -ercial Bank	Regu-lated Mar-met
Almora							
Chauna (B)	15	19	2	134	2	2	2
Jhalahat (D)	4	7	4	123	4	10	10
Azamgarh							
Rasoolpur (D)	8	3	3	20	3	3	3
Patar (B)	14	11	7	20	2	9	2
Lakhimpur-Kheri							
Sunsi (D)	13	2	2	5	2	2	2
Semrai (B)	32	8	8	3	3	8	8
Lalitpur							
Bridha (D)	17	3	1	3	1	3	3
Talbehata (B)	7	7	0	7	0	7	7
Muzaffarnagar							
Goharani (D)	2	2	2	1	1	2	2
Jalalpur (B)	7	7	7	3	3	7	7

Note : D = Developed Village; B = Backward Village.

The distribution of operational holdings in the sample villages has been shown in Table 2.6. The marginal holdings constituted 48.2 per cent of holdings but accounted for only 13.8 per

cent of area. Small holdings accounted for 25.8 per cent of holdings and 22.1 per cent of area. On the other hand medium and large holdings constituting about 9 per cent of total holdings possessed 36 per cent of total area.

Table 2.6 : Distribution of Operational Holdings in the Selected Villages

Size Category (in ha.)	No. of Holdings		Area of Holdings (in Acres)	
	Total	Per Cent	Total	Per Cent
Marginal (Upto 1.0 ha.)	2241	48.2	1033	13.8
Small (1.0 to 2.0 ha.)	1200	25.8	1650	22.1
Semi-Medium (2.0 to 4.0 ha.)	781	16.8	2092	28.0
Medium (4.0 to 10.0 ha.)	383	8.2	2171	29.1
Large (Above 10.0 ha.)	43	0.9	524	6.9
All Categories	**4648**	**100.0**	**7460**	**100.0**

Source: Village records

The total reported area of the sample villages was 8176 hectares out of which 7433 hectare (90.9 per cent) area was under cultivation. Average cropping intensity in the selected

villages was 161.6 varying from 121.1 to 193.8 (Table 2.7). Cropping intensity in Muzaffarnagar district villages was much lower as the district specializes in sugarcane cultivation which is a long standing crop.

Table 2.7 : Land Utilization in Selected Villages

(Area in ha.)

District/Village	Reporting Area	Net Area Sown	Area Sown More than once	Cropping Intensity
Almora				
(a) Chauna (D)	18.22	12.96	12.15	193.75
(b) Jhalahat (B)	68.83	50.66	40.00	178.96
Total	**87.05**	**63.62**	**52.15**	**181.97**
Azamgarh				
(a) Rasoolpur (D)	3729.00	3196.00	2500.00	178.22
(b) Patar (B)	249.55	238.00	130.00	154.62
Total	**3978.55**	**3434.00**	**2630.00**	**176.59**
Lakhimpur Kheri				
(a) Sunsi (D)	260.00	224.00	150.00	166.96
(b) Semrai (B)	420.00	398.00	140.00	135.18
Total	**680.00**	**622.00**	**290.00**	**146.62**
Lalitpur				
(a) Kadesarakala (D)	615.00	590.00	450.00	176.27
(b) Aera (B)	1190.00	1168.00	800.00	168.49
Total	**1805.00**	**1758.00**	**1250.00**	**171.10**
Muzaffarnagar				
(a) Goharani (D)	850.00	815.00	200.00	124.54
(b) Jalalpur (B)	775.00	740.00	156.00	121.08
Total	**1625.00**	**1555.00**	**356.00**	**122.89**
Grand Total	**8175.60**	**7432.62**	**4578.15**	**161.60**

Note : D = Developed Village; B = Backward Village.
Source: Village records

Irrigation facilities were relatively well developed in the sample villages, with 84 per cent of the net sown area receiving irrigation. In the two villages of Lalitpur district and 1 village of Almora per cent of irrigated area was relatively lower (Table 2.8). Tubewells were the main source of irrigation in all the villages except the two villages of Almora, which depended upon canal irrigation.

Table 2.8 : Irrigated Area in Sample Villages

(Area in Ha.)

District/Villages	Irrigated Area	Non-irrigated Area	Total
Almora			
(a) Chauna (D)	5.00 (37.99)	8.16 (62.01)	13.16 (100.00)
(b) Jhalahat (B)	50.00 (91.47)	4.66 (8.53)	54.66 (100.00)
Azamgarh			
(a) Rasoolpur (D)	2880.00 (90.00)	320.00 (10.00)	3200.00 (100.00)
(b) Patar (D)	230.00 (96.00)	9.55 (4.00)	239.55 (100.00)
Lakhimpur Kheri			
(a) Sunsi (D)	215.00 (95.00)	10.14 (4.50)	225.14 (100.00)
(b) Semrai (B)	390.00 (97.00)	9.07 (3.00)	399.07 (100.00)
Lalitpur			
(a) Kadesarakala (D)	359.51 (60.00)	239.68 (40.00)	599.19 (100.00)
(b) Area (B)	702.60 (60.00)	468.40 (40.00)	1171.00 (100.00)
Muzaffarnagar			
(a) Goharani (D)	776.15 (95.00)	40.85 (5.00)	817.00 (100.00)
(b) Jalalpur (B)	666.90 (90.00)	74.10 (10.00)	741.00 (100.00)
Grand Total	**6275.16** **(84.12)**	**1184.61** **(15.88)**	**7459.77** **(100.00)**

Note : D = Developed Village; B = Backward Village.
Source: Village records

Agriculture was found to be the predominant activity in the sample villages. The main crops grown included wheat, paddy, coarse cereals, pulses, sugarcane and oilseeds. Dairying was practiced as a subsidiary activity. Traditional industries in the sample villages included rope making, basket making, weaving, etc. Gur and khandsari units were found in the villages of Muzaffarnagar and Lakhimpur Kheri, which are sugarcane growing area.

CHAPTER III

THE GROWTH OF INSTITUTIONAL CREDIT IN UTTAR PRADESH

I. INTRODUCTION

The expansion of institutional credit in rural areas has been a major aim of public policy since Independence. Initially the thrust of the policy was on the cooperative credit system following the recommendation of the celebrated All India Rural Credit Survey Committee Report (RBI, 1954). Later on a major programme on the expansion of commercial bank branches in the rural areas was taken up after the nationalisation of 14 major commercial banks in 1969. Since then a vast expansion of institutional credit facilities has taken place in the rural areas of the country. The progress of institutional sources of credit in rural areas of Uttar Pradesh has been briefly reviewed in this chapter.

II. GROWTH OF COOPERATIVE CREDIT

Progress of primary agricultural societies in U.P. has been shown in Table 3.1. From a small membership of 8.5 lakhs in 1950-51 the membership of PACs crossed 100 lakhs in 1985-86 and at present stands at 153.6 lakhs. Similarly the loans distribution by PACs have shown a phenomenal increase over the years rising from a paltry amount of Rs.2.3 crore in 1950-51 to Rs.254.5 crore in 1985-86 and further to Rs.794.9 crore in 1997-98.

Table 3.1 : Progress of Primary Agricultural Credit Cooperative Societies in U.P Since 1950-51

Year	No. of Societies	Membership (in Lakh)	Share Capital (in Rs. Crore)	Loans Distributed (Rs.Crore)	Loans Distri-buted per Member (Rs)
1950-51	26390	8.5	1.0	2.3	26.8
1955-56	44006	14.9	2.7	5.6	39.9
1960-61	55131	33.4	8.9	30.9	92.6
1965-66	35188	50.6	14.9	44.5	87.9
1970-71	25922	55.3	21.9	51.3	92.9
1975-76	12994	70.0	37.0	95.1	135.9
1980-81	8618	86.9	66.6	188.9	214.0
1985-86	8601	100.4	88.4	254.5	253.5
1990-91	8599	121.4	126.9	380.0	313.0
1996-96	8799	148.4	188.1	815.8	549.7
1996-97	8384	149.6	192.5	797.5	533.1
1997-98	8384	153.6	198.1	794.9	517.5

Source : Registrar Cooperative Societies, U.P.

The cooperative credit structure in U.P. consists of the U.P. Cooperative Bank at the apex level, 60 District Central Cooperative Banks at the district level and 8384 Primary Agricultural Societies at the village level. The Uttar Pradesh Sahakari Gramin Vikas Bank, which has 299 branches, provides long term credit. The details of the lending activities of these institutions have been given in Table 3.2. The number of membership of the Cooperative Credit Societies is fairly large at 1.53 crore, but recovery ratio is low with over dues amounting to nearly 40 per cent. About half of the PACs are actually incurring losses.

The availability of cooperative credit has expanded sharply in the recent years. Total loans advanced by the PACs have gone up from Rs.188.94 crore in 1990-91 to Rs.379.99 crore in 1990-91 and further to Rs.797.67 crore in 1996-97. The recovery position, however, deteriorated sharply over time coming down to around 50 per cent in the eighties. It has improved somewhat in the recent years but is still hovering between 60 and 70 per cent.

Table 3.2: Cooperative Credit Structure in Uttar Pradesh

(a) U.P. Cooperative Bank (UPCB)

Item	1993-94	1994-95	1995-96
No. of Branches	29	29	28
Total Deposits (Rs. Cr.)	1208.63	1277.79	1405.29
Total Loans Outstanding (Rs.Cr.)	1350.33	1458.61	1864.09
Recovery Rate (%)	88.80	86.70	85.70
Net Profit (Rs. Crore)	5.87	6.83	8.57

(b) District Central Cooperative Bank (DCCBs)

Item	31.3.94	31.3.95	31.3.96
No. of DCCBs	60	60	60
No. of Branches	1468	1468	1538
Owned Funds (Rs. Cr.)	269.38	305.37	269.92
Loans Outstanding (Rs.Cr.)	1677.55	1797.63	1744.83
Total Deposits (Rs.Cr.)	1857.83	2136.90	2489.34
Advances (ST&MT) (Rs.Cr.)	1496.74	1609.50	1607.34
Overdues (Rs.Cr.)	467.34	551.85	598.00
% of Overdues to Demand	38.57	40.28	41.61

(c) Primary Agriculture Credit Societies (PACS)

Item	1993-94	1994-95	1995-96
No. of PACS	8599	8597	8602
Membership (in Cr.)	1.49	1.52	0.76
Borrowing Members (in Cr.)	0.75	0.79	0.76
No. of Societies in Profit	4302	4472	4479
As % Total PACS	50.02	52.02	52.06
Average Membership per Society	1733	1768	1778
% of Borrowing Members to Total Members	50.03	51.97	49.67
Average Loan Outstanding per Borrowing Member	1806	1849	2038
Deposits (Rs. Cr.)	64.48	68.14	68.14
Borrowings (Rs.Cr.)	873.73	977.04	990.34
Loans Issued (ST&MT) (Rs.Cr.)	763.53	802.38	815.76
Loans (Outstanding) (Rs.Cr.)	1354.70	1460.57	1548.67
% of Overdues to Demand (30 June)	29.46	33.59	39.00

(d) Uttar Pradesh Sahakari Gramin Vikas Bank (UPSGVB)

Item	1993-94	1994-95	1995-96
No. of Branches	287	288	299
Loans Outstanding (Rs.Cr.)	817.23	912.22	1017.29
Loans Overdue (Rs.Cr.)	82.37	80.70	78.85
% of Overdues to Demand	27.73	23.70	19.90
Profit (Rs. Crore)	12.26	13.72	14.45

***Source :** NABARD, <u>This Is Uttar Pradesh: Profiles and Potentials,</u> Lucknow, 1996.*

The problem of iniquitous availability of credit is also found in the case of the cooperative societies, which are mostly dominated by upper caste medium and large farmers (Table 3.3).

Table 3.3 : Category-wise Loans and Advances by Primary Agricultural Credit Societies in Uttar Pradesh, 1990-91

Sl. No.	Type of Holding	No. of Borrowers ('000)	Amount (Rs.Crore)
1.	Upto 2.00 ha.	1683 (63.68)	127.45 (49.20)
2.	Above 2.0 ha.	881 (33.33)	130.36 (50.32)
3.	Tenant Cultivators & Agricultural Labourers	79 (3.00)	1.23 (0.48)
4.	**Total**	**2643 (100.00)**	**259.04 (100.00)**

Source : Reserve Bank of India, Currency and Finance Report, 1993-94
Note : Figures in brackets show percentages.

In terms of membership the spread of cooperative credit societies is still low in Uttar Pradesh. Thus, membership of PACS is only 13.16 per cent of rural population. The availability of short term cooperative credit per ha. of gross sown area is only Rs.308. It varies from as low as Rs.184 in Bundelkhand Region to Rs.515.54 in North Western U.P. (Table 3.4). Medium term loaning of cooperatives is also at a very modest level. District-wise position of cooperative credit institutions has been shown in Appendix 3.1.

Table 3.4: **Region-wise Agricultural Cooperative Credit Facilities in Uttar Pradesh : 1994-95**

Item	North West U.P.	South West U.P.	Central U.P.	East UP Tarai	East UP Plain	Hill Region	Bundel-khand	All U.P.
No. of DCB	282	195	332	170	235	166	87	1467
Per Lakh of Rural Population	1.41	1.09	1.42	0.93	1.07	3.58	1.64	1.32
No. of UPLDB Branches	68	64	55	29	41	13	18	288
Per Lakh of Rural Population	0.34	0.36	0.23	0.16	0.19	0.28	0.34	0.26
No. of PACS	1194	1373	1809	1321	1750	737	418	8602
Per Lakh of Rural Population	5.99	7.66	7.72	7.23	7.95	15.89	7.90	7.71
Membership of PACS in Lakh	25.97	26.21	32.51	20.69	25.20	6.98	9.13	146.69
% of Rural Population	13.03	14.63	13.87	11.33	11.45	15.05	17.25	13.16
Short Term Loaning by PACS (Rs.Lakh)	26816	13492	13096	7276	9528	4339	4009	78557
Per Ha. of Gross Sown Area	515.59	290.98	255.74	199.21	260.13	397.88	183.89	307.52
Medium Term Loaning by PACS (Rs.Lakh)	172.75	123.06	185.04	206.39	106.78	697.35	213.64	1705.01
Per Ha. of Gross Sown Area	3.32	2.65	3.61	5.65	2.92	63.94	9.80	6.67

Source *:Important Statistics of Uttar Pradesh Cooperative Movement, 1995, Registrar Cooperative Societies, U.P., Lucknow.*

III. GROWTH OF BANK CREDIT

Since nationalisation of banks in 1969 the banking facilities have rapidly expanded in the rural areas of the state. The number of rural branches of commercial banks which was 2275 in 1981 increased to 5766 in 1991 and stood at 5444 in 1998

Table 3.5 : Number of Bank Offices in U.P. by Area

Area	1981	1986	1991	1998
Rural	2275	4793	5766	5444
Semi-Urban	816	1154	1178	1503
Urban	854	1135	1233	1531
Metropolitan	183	236	257	537
Total	**4128**	**7318**	**8434**	**9005**

Source : Reserve Bank of India, Currency and Finance Report. (Annual), Bombay

(Table 3.5). Similarly total advances of commercial banks to farmers have gone up very sharply from a mere Rs.45.01 crore in 1979-80 to Rs.369.00 crore in 1990-91 and further to Rs.711.34 in 1996-97 (Table 3.6).

Table : 3.6 : Direct Finance to Farmers by Commercial Banks in U.P.

(Rs. Cr.)

Year	Short Term Advance	Term Loans	Total Advances
1979-80	11.40	33.61	45.01
1984-85	43.89	110.96	154.85
1990-91	109.10	259.90	369.00
1996-97	298.12	413.22	711.34

Source : Reserve Bank of India, Currency and Finance Report. (Annual), Bombay

The present position of commercial banks has been shown in Table 3.7. The number of total bank branches in U.P. at the end of 1995 was 8606. Total agricultural advances of commercial banks amounted to Rs.2986 crore or 22.5 per cent of their total advances. There are 40 Regional Rural Banks in U.P. with 3035 branches, which advanced a credit of Rs.1548 crore in 1995-96. However, recovery position of the RRB is not good and as many as 38 out of the 40 RRBs are running into losses (Table 3.8)

Table 3.7 : Working of Scheduled Commercial Banks in U.P.

	March 1993	March 1998
No. of Branches	8557	8810
Total Deposits (Rs. Cr.)	25431	58760
Total Advances (Rs.Cr.)	10773	16805
Total Priority Sector Advances (%)	55.2	57.1
Total Agricultural Advances (%)	22.6	20.4
CD Ratio	42.4	28.6

Source : RBI, Currency and Finance Report (Annual), Bombay

Table 3.8 : Working of Regional Rural Banks in U.P.

	31.3.94	31.3.95	31.3.96
No. of RRBs	40	40	40
Districts Covered	65	65	65
No. of Branches	3045	3037	3035
Total Deposits (Rs.Cr.)	2465	3020	3786
Total Advances (Rs.Cr.)	1096	1309	1548
CD Ratio	45.00	45.66	41.87
No. of RRBs in Profit	12	12	12
No. of RRBs in Loss	28	28	28

Source : ***NABARD, This Is Uttar Pradesh : Profiles and Potential, Lucknow, 1996.***

Significant variations in the level of commercial bank loans are observed across the different agro-climatic zones in U.P. (Table 3.9). Thus, crop loan per ha. of GSA ranges from Rs.238 in Bundelkhand to Rs.778 in North-West U.P. The Western and the Hill Regions fare better in terms of commercial bank lending as compared to other regions of the state, whereas Eastern Region and Bundelkhand are lagging behind. District-wise details of banking facilities are given in Appendix 3.2.

Table 3.9 : Region-wise Availability of Commercial Bank Credit to Agricultural Sector in U.P. : 1995-96

Region	Rural Bank Branches		Crop Loan		Total Term Loan (Rs. Lakh)	Total Agricu-ltural Loans (Rs. Lakh)
	No.	Per Lakh of Popula-tion	Rs. Crore	Per Ha. of GSA (Rs.)		
North West U.P.	662	3.32	404.77	778	304.36	709.14
South West U.P.	543	3.03	234.20	505	187.89	422.09
Central U.P.	608	2.59	192.86	377	167.19	360.04
East U.P. Plain	564	2.56	106.22	290	144.21	250.43
East U.P. Tarai	456	2.50	160.84	440	110.33	271.17
Hill Region	366	7.89	78.48	720	49.15	127.64
Bundelkhand	157	2.97	51.95	238	37.07	89.03
Uttar Pradesh	**3316**	**2.97**	**1229.33**	**481**	**1000.21**	**2229.54**

Source : NABARD, This is Uttar Pradesh : Profile and Potentials, Lucknow, 1996.

A major shortcoming of the institutional credit structure is the inequitous access to finance. The marginal farmers, who constitute 73.8 per cent of total operational holdings, have a share of 30.10 per cent in short term and 15.32 per cent in long term lending by the commercial banks. On the other hand medium and large farmers with 10.6 per cent share in holdings, corner 36.47 per cent of short term and 66.19 per cent of long term bank credit (Table 3.10).

Table 3.10 : Category-wise Commercial Bank Loans Outstanding to Farmers in U.P. as on June 1997

Category	Short Term Loans		Term Loan	
	No.of Accounts ('000)	Amount (Rs.Cr.)	No. of Accounts ('000)	Amount (Rs.Cr.)
Upto 2.5 Acres	306.12 (39.43)	154.57 (30.10)	262.19 (41.61)	241.06 (15.32
2.5 to 5.0 Acres	266.59 (34.34)	171.69 (33.43)	190.96 (30.30)	291.09 18.50)
Above 5.0 Acres	203.69 (26.23)	180.30 (36.47)	177.01 (28.09)	1041.60 (66.19)
All Categories	**776.39 (100.00)**	**513.56 (100.00)**	**630.16 (100.00)**	**1573.76 (100.00)**

Source : *RBI, Report on Currency and Finance, 1997-98*
Note : Figures in brackets show percentages.

Though institutional advances have been rising rapidly over time in the state, the availability of credit is still inadequate in comparison to the requirement. Thus, bank credit to agriculture was only Rs.1615 per ha. of net sown area in U.P. in 1995-96 as compared to the figure of Rs.3472 in Punjab.

IV. SHARE OF INSTITUTIONAL CREDIT

As a result of the expansion of institutional sources of credit in the rural areas the share of institutional credit in total rural borrowings has gone up substantially with a corresponding decline in the share of the non-institutional credit. Thus, institutional sources were meeting around one-fourth of total credit demand in 1971 and over one-half of the credit demand in 1981.

Table 3.11 : Percentage of Rural Households and Percentage of Outstanding Cash Dues by Credit Agency in U.P.

Credit Agency	Percentage of Reporting Households		Percentage of Cash Dues Outstanding	
	on 30.6.71	on 30.6.81	on 30.6.71	on 30.6.81
Government	2.28	1.05	8.37	4.84
Cooperative Societies	5.19	3.82	13.16	21.09
Commercial Banks	0.12	2.38	1.34	29.03
Insurance	0.03	0.01	0.19	0.08
Provident Fund	0.13	0.05	0.36	0.05
Total Institutional Sources	**7.75**	**7.31**	**23.42**	**55.09**
Landlord	3.70	0.65	6.35	2.57
Agricultural Moneylender	10.39	4.11	25.43	14.40
Professional Moneylenders	9.46	2.65	24.85	12.09
Traders	2.60	0.77	4.78	2.59
Relatives & Friends	7.06	2.70	12.80	9.06
Other Sources	1.28	1.29	2.36	4.17
Total Non-Institutional Sources	**34.49**	**12.17**	**76.57**	**44.88**
Total	**37.32**	**17.39**	**100.00**	**100.00**

Source : *Reserve Bank of India, All India Debt and Investment Survey, 1971-72, and NSSO, Sarvekshana, July, 1987.*

The share of different agencies in rural credit is shown in Table 3.11. Most dramatic has been the increase in the share of the commercial banks, which provided 29.03 per cent of rural

credit in 1981, cooperatives providing another 21.09 per cent of rural credit. Still nearly 45 per cent of rural credit is being provided by the non-institutional sources. Agricultural moneylenders together with the professional moneylenders provided around one-fourth of rural credit in 1981, i.e., nearly 60 per cent of non-institutional credit. Relatives and friends still remain an important source of rural finance providing around one-tenth of total credit demand.

Table 3.12: Percentage of Reporting Households and Per cent Distribution of Cash Dues From Institutional Sources in U.P. (Rural) As on 30.6.1981

Sl. No.	Household Asset Holding (Rs)	Per cent of Reporting Households	Per cent of Cash Dues
1.	Upto 1000	0.85	4.48
2.	1000 – 5000	2.53	26.53
3.	5000 – 10000	3.28	17.35
4.	10000 – 20000	5.04	29.34
5.	20000 – 50000	9.02	44.16
6.	50000 – 100000	10.06	60.76
7.	100000-500000	13.97	78.61
8.	500000 and above	22.56	96.74
9.	**All Groups**	**7.31**	**55.12**

Source : NSSO, Sarvekshana, July, 1987.

Another feature of institutional credit revealed by the All India Debt and Investment Surveys is the high degree of inequity in access to credit. Thus, only 7.3 per cent of rural households reported borrowing from institutional sources in 1981. For the poorer households, non-institutional sources remained the major supplier of credit. The dependence of richer households on these sources was relatively less, and declines with the increase in the value of their household assets (Table 3.12).

V. SUMMING UP

Our brief survey of the growth of institutional credit shows a dramatic expansion of institutional financial structure in the rural areas of Uttar Pradesh since Independence. As a result institutional sources mainly commercial banks and cooperative societies have displaced the moneylender as the major supplier of rural credit. However, considerable inter-regional and inter-personal inequity in access to institutional credit facilities remains. Bulk of bank credit as well as loans from cooperatives have been cornered by the rural rich. Though the much-maligned rural moneylender has been displaced from his position of dominance, he still remains an important player in the field of rural finance especially for the rural poor. The working of the financial institutions is also affected by a number of inefficiencies and shortcomings. They are further plagued by high levels of over-dues which reduces their viability for future lending.

Appendix 3.1 : District-wise Cooperative Credit Institutions in U.P., 1994-95

District	District Cooperative Bank		U.P. Land Development Bank		Primary Agricultural Credit Societies				Short Term Loaning by PACS		Medium Term Loaning by PACS (Rs. in Lakh)	Per Ha. of Gross Sown Area
	No.of Branches	Per Lakh of Rural Population	No.of Branches	Per Lakh of Rural Population	No.of PACS	Per Lakh of Rural Population	Membership of PACS (in Lakh)	Per Cent of Rural Population	(Rs. in Lakh)	Per Ha. of Gross Sown Area		
Bareilly	19	1.00	6	0.31	149	7.82	2.47	12.97	1666.31	326.62	27.26	5.34
Bijnor	33	1.79	8	0.44	105	5.71	2.55	13.87	3458.81	759.43	30.20	6.63
Bulandshahr	25	1.11	7	0.31	174	7.71	1.74	7.71	1930.47	325.58	0.00	0.00
Ghaziabad	25	1.72	5	0.34	81	5.56	2.07	14.22	1730.77	576.65	3.86	1.29
Haridwar	11	1.42	3	0.39	40	5.15	0.97	12.50	1164.60	637.77	1.11	0.61
Meerut	34	1.57	6	0.28	117	5.39	3.33	15.33	3244.14	638.99	8.70	1.71
Moradabad	42	1.41	8	0.27	148	4.96	3.94	12.21	2892.42	369.51	33.48	4.28
Muzaffarnagar	36	1.68	6	0.28	94	4.39	2.69	12.55	3967.05	775.94	42.82	8.38
Rampur	21	1.89	5	0.45	65	5.86	1.44	12.98	2096.89	628.31	9.81	2.94
Saharanpur	17	0.99	6	0.35	106	6.67	2.43	14.14	2415.94	536.85	1.82	0.40
Shahjahapur	19	1.21	8	0.51	115	7.30	7.30	14.92	2248.15	391.21	13.69	2.38
NORTH-WEST U.P.	282	1.41	68	0.34	1194	5.99	25.97	13.03	26815.59	515.54	172.75	3.32
Agra	17	1.04	8	0.49	180	10.98	2.68	16.34	1359.92	361.55	0.00	0.00
Aligarh	20	0.81	9	0.36	187	7.58	3.04	12.32	2018.91	318.20	0.00	0.00
Badaun	23	1.14	9	0.45	162	8.03	3.72	18.44	1722.68	273.39	1.33	0.21
Etah	22	1.18	6	0.32	105	5.61	2.90	15.51	1324.91	260.68	37.50	7.38
Etawah	25	1.40	5	0.28	136	7.59	3.05	17.03	885.67	196.70	1.64	0.36
Farrukhabad	20	1.01	6	0.30	124	6.24	2.87	14.45	901.25	196.65	24.70	5.39
Ferozabad	10	0.89	3	0.27	98	8.70	1.23	10.92	687.49	263.43	20.47	7.84
Kanpur Nagar	-	-	1	0.26	29	7.61	0.40	10.50	186.51	221.62	0.00	0.00
Kanpur Dehat	28	1.39	7	0.35	158	7.84	2.73	13.54	880.74	177.07	10.00	0.02
Mainpuri	11	0.96	3	0.26	84	7.35	1.41	12.34	669.47	224.12	14.73	4.93
Mathura	19	1.29	7	0.47	110	7.45	2.18	14.77	2854.53	651.67	12.69	2.90
SOUTH WEST U.P.	195	1.09	64	0.36	1373	7.66	26.21	14.63	13492.08	290.98	123.06	2.65
Allahabad	45	1.15	9	0.23	273	7.00	5.09	13.05	2107.29	345.26	34.64	5.68
Barabanki	23	1.05	4	0.18	153	6.96	2.72	12.38	482.90	102.83	0.50	0.11
Fatehpur	33	1.93	3	0.18	112	6.55	2.19	12.80	864.85	229.39	7.50	1.99
Hardoi	22	0.91	5	0.21	200	8.25	3.08	12.70	398.76	67.74	0.81	0.14
Kheri	55	2.55	6	0.28	129	5.97	3.26	15.09	3163.18	487.57	72.19	11.13
Lucknow	20	0.19	4	0.39	103	9.98	2.45	23.74	462.68	223.35	0.24	0.17
Pilibhit	13	1.24	4	0.38	71	6.78	1.61	15.38	2058.78	544.68	19.88	5.26
Rae Bareli	33	1.56	7	0.33	190	8.99	3.57	16.90	896.03	221.30	47.83	11.81
Sitapur	39	1.55	6	0.24	204	8.12	3.34	13.29	1216.60	207.25	0.00	0.00
Sultanpur	29	1.19	5	0.20	188	7.69	2.70	11.04	660.57	152.16	1.45	0.33
Unnao	20	1.05	5	0.26	186	9.78	2.50	13.15	784.15	188.85	0.00	0.00
CENTRAL U.P.	332	1.42	55	0.23	1809	7.72	32.51	13.87	13095.79	255.74	185.04	3.61

Appendix 3.1 (contd....)

Bahraich	27	1.06	4	0.16	155	6.09	2.56	10.05	627.08	89.77	0.00	0.00
Basti	24	0.94	3	0.12	191	7.45	2.91	11.35	630.09	127.07	0.00	0.00
Deoria	41	1.00	4	0.10	330	8.02	5.58	13.56	3657.98	567.03	134.95	20.92
Gonda	30	0.91	8	0.24	227	6.86	2.48	7.50	168.69	24.50	0.00	0.00
Gorakhpur	48	1.93	4	0.16	186	7.47	2.85	11.44	838.85	211.01	47.46	11.94
Maharajganj	-	-	3	0.19	99	6.21	2.24	14.05	834.95	236.22	23.98	6.78
Sidharthnagar	-	-	3	0.18	133	8.07	2.07	12.56	518.13	138.78	0.00	0.00
EAST U.P. TARAI	170	0.93	29	0.16	1321	7.23	20.69	11.33	7275.77	199.21	206.39	5.65
Azamgarh	28	0.96	5	0.17	278	9.49	3.16	10.79	1200.62	252.64	6.97	1.47
Ballia	35	1.72	3	0.15	165	8.10	1.94	9.52	518.35	151.89	0.00	0.00
Faizabad	26	0.99	5	0.19	202	7.68	2.71	10.30	847.91	181.90	0.00	0.00
Ghazipur	22	0.98	4	0.18	191	8.53	2.47	11.04	1670.29	432.40	11.34	2.94
Jaunpur	39	1.30	5	0.17	227	7.58	3.05	10.19	1096.36	256.62	6.49	1.52
Mau	-	-	3	0.25	105	8.74	1.57	13.06	742.96	360.73	9.83	4.77
Mirzapur	27	1.89	2	0.14	93	6.51	1.98	13.86	830.98	282.02	2.56	0.87
Pratapgarh	26	1.24	5	0.24	174	8.33	3.55	16.99	818.58	244.20	57.02	17.01
Sonbhadra	-	-	2	0.21	62	6.66	1.04	11.17	310.85	129.55	2.52	1.05
Varanasi	32	0.90	4	0.11	253	7.15	3.73	10.54	1491.52	303.76	10.05	2.05
EAST U.P. PLAIN	235	1.07	41	0.19	1750	7.95	25.20	11.45	9528.42	260.13	106.78	2.92
Almora	20	2.55	1	0.13	106	13.54	1.14	14.56	99.44	55.22	47.90	26.60
Chamoli	19	4.59	1	0.24	76	18.36	0.79	19.08	48.74	69.49	99.99	142.57
Dehradun	14	2.75	1	0.20	41	8.04	0.38	7.45	227.04	258.86	14.19	16.18
Garhwal	19	3.16	3	0.50	136	22.63	1.23	20.47	22.92	16.51	71.19	51.29
Nainital	40	3.86	4	0.39	86	8.29	1.32	12.73	3427.19	995.98	184.20	53.53
Pithoragarh	19	3.63	1	0.19	137	26.15	0.93	17.75	162.98	144.86	165.54	147.14
Tehri Garhwal	22	4.02	1	0.18	105	19.20	0.79	14.44	191.43	172.41	54.90	49.45
Uttarkashi	13	5.86	1	0.45	50	22.52	0.41	18.47	159.63	345.09	59.44	128.50
HILL REGION	166	3.58	13	0.28	737	15.89	6.98	15.05	4339.37	397.88	697.35	63.94
Banda	18	1.11	4	0.25	109	6.72	2.01	12.38	437.56	74.60	15.30	2.61
Hamirpur	20	1.65	4	0.33	89	7.34	2.24	18.48	979.93	175.59	38.97	6.98
Jalaun	19	2.00	4	0.42	111	11.68	1.71	18.00	1135.78	291.07	30.46	7.81
Jhansi	19	2.20	4	0.46	68	7.88	2.04	23.64	985.96	273.23	99.80	27.66
Lalitpur	11	1.70	2	0.31	41	6.35	1.13	17.49	470.26	165.16	29.11	10.22
BUNDELKHAND	87	1.64	18	0.34	418	7.90	9.13	17.25	4009.49	183.89	213.64	9.80
UTTAR PRADESH	1467	1.32	288	0.26	8602	7.71	146.69	13.16	78556.50	307.52	1705.01	6.67

Source : Important Statistics of Uttar Pradesh Cooperative Movement : 1995, Registrar Cooperative Societies, U.P., Lucknow

Appndix 3.2 : District-wise Availability of Commercial Bank Credit in U.P., 1995-96

(Rs. Lakh)

District	No. of Rural Branches	No. of Branches per lakh population	Total Crop Loan	Crop Loan per ha. of GSA (Rs.)	Total Term Loan	Total Agricultural Loan
Bareilly	28	1.47	2727.00	535	2297.00	5024.00
Bijnor	41	2.23	3853.03	846	2056.29	5909.32
Bulandshahr	89	3.94	2187.37	369	2655.74	4843.11
Ghaziabad	66	4.53	2159.00	719	1816.00	3975.00
Haridwar	33	4.25	1789.20	980	861.40	2650.60
Meerut	102	4.70	4073.93	802	2076.69	2560.62
Moradabad	33	1.11	6053.04	773	3034.02	9087.06
Muzaffarnagar	71	3.31	5600.24	1095	8068.69	13668.93
Rampur	30	2.71	4365.20	1308	1757.70	6122.90
Saharanpur	77	4.48	4891.19	1087	1480.28	6371.47
Shahjahapur	52	3.30	2778.00	483	4333.00	7111.00
NORTH-WEST U.P.	662	3.32	40477.20	778	30436.81	70914.01
Agra	47	2.87	3542.17	942	2132.14	5674.31
Aligarh	84	3.40	4160.83	656	3309.65	7370.48
Badaun	72	3.57	2070.00	329	2403.00	4473.00
Etah	29	1.55	2687.40	529	2179.35	4868.75
Etawah	50	2.79	937.46	208	1417.59	2355.05
Farrukhabad	14	0.70	1808.00	394	1410.00	3210.00
Ferozabad	19	1.69	1526.09	585	1015.00	2541.09
Kanpur Nagar	30	7.87	256.96	305	283.32	540.28
Kanpur Dehat	46	2.28	1893.40	381	1010.08	2903.48
Mainpuri	12	1.05	987.00	330	1349.22	2336.28
Mathura	140	9.49	3550.31	811	2280.11	5830.42
SOUTH WEST U.P.	543	3.03	23419.62	505	18789.46	42209.08
Allahabad	107	2.74	2414.60	396	1967.03	4381.63
Barabanki	24	1.09	1040.43	222	1178.38	2218.81
Fatehpur	37	2.16	1891.95	502	804.44	2696.39
Hardoi	46	1.90	505.07	103	1496.06	2001.13
Kheri	61	2.82	4583.99	707	2242.51	6826.50
Lucknow	66	6.40	1008.00	487	1134.00	2142.00
Pilibhit	63	6.01	2760.55	730	1576.08	4336.63
Rae Bareli	45	2.13	1187.70	293	1319.19	2506.89
Sitapur	25	0.99	1836.01	313	2204.79	4040.80
Sultanpur	41	1.68	1068.43	246	1472.56	2540.99
Unnao	93	4.89	989.10	238	1323.56	2312.66
CENTRAL U.P.	608	2.59	19285.83	377	16718.60	36004.43

Appendix 3.2 (contd....)

Bahraich	56	2.20	2403.14	344	1227.32	3630.46
Basti	55	2.15	739.28	149	1605.91	2345.19
Deoria	32	1.61	3062.45	575	979.53	4041.98
Gonda	104	3.14	535.97	78	1866.85	2402.82
Gorakhpur	57	2.29	1182.11	297	1365.22	2547.33
Maharajganj	36	2.26	1178.65	333	768.25	1946.90
Sidharthnagar	46	2.79	275.83	74	826.38	1102.21
Bhadoi	40	4.26	3016.40	N.A.	1452.04	4468.44
Padrauna	30	1.41	3689.79	N.A.	941.44	4631.23
EAST U.P TARAI	456	2.50	16083.62	440	11032.94	27116.56
Azamgarh	139	4.75	1104.86	232	1002.33	2107.19
Ballia	31	1.52	643.72	189	1009.95	1653.67
Faizabad	74	2.81	1084.00	233	3482.00	4566.00
Ghazipur	45	2.01	2053.21	532	1888.25	3941.46
Jaunpur	90	3.01	1604.26	376	1753.00	3357.26
Mau	31	2.58	225.27	109	428.58	653.85
Mirzapur	46	3.22	1098.47	373	636.18	1734.65
Pratapgarh	48	2.30	1160.37	346	928.71	2089.08
Sonbhadra	14	1.50	461.63	192	715.47	1177.10
Varanasi	46	1.77	1186.53	242	2576.28	3762.81
EAST U.P PLAIN	564	2.56	10622.32	290	14420.75	25043.07
Almora	52	6.64	174.28	97	169.17	343.45
Chamoli	26	6.28	74.26	106	171.32	245.58
Dehradun	53	10.39	531.55	606	357.14	888.69
Garhwal	56	9.32	52.16	38	410.62	462.78
Nainital	69	6.65	6355.28	1847	3125.13	9480.41
Pithoragarh	37	7.06	215.64	192	245.17	460.81
Tehri Garhwal	40	7.31	266.40	240	258.66	525.06
Uttarkashi	33	14.86	179.38	388	177.68	357.06
HILL REGION	366	7.89	7848.95	720	4914.89	12763.84
Banda	31	1.91	759.47	129	746.05	1505.52
Hamirpur	26	3.48	641.73	115	532.39	1174.12
Jalaun	27	2.84	1346.71	345	607.19	1953.90
Jhansi	41	4.75	1116.37	309	805.16	1921.53
Lalitpur	22	3.41	811.64	285	580.73	1392.37
Mahoba	10	2.16	519.43	N.A.	435.81	955.24
BUNDELKHAND	157	2.97	5195.35	238	3707.33	8902.68
UTTAR PRADESH	3316	2.97	122932.89	481	100020.78	222953.67

Source : NABARD, <u>This is Uttar Pradesh : Profiles and Potentials</u>, Lucknow, 1996.

CHAPTER IV

SOCIO-ECONOMIC CHARACTERISTICS OF THE SAMPLE HOUSEHOLDS

IV.1 INTRODUCTION

As already indicated a sample of 510 households from 10 villages spread over the five economic regions of the state was selected for field study. In this Chapter we briefly discuss the main socio-economic characteristics of the sample household covering aspects like caste, literacy levels, occupational distribution, ownership of physical and financial assets, household income, etc.

IV.2 RELIGION AND CASTE

36.08 per cent of the sample households belonged to the Upper Castes, 22.35 per cent to Backward Castes and 33.14 per cent to Scheduled Castes (Table 4.1). Remaining 8.43 per cent of the sample households belonged to the Muslim Community.

Table 4.1 :**Distribution of Respondents by Caste and Religion**

District	Higher Caste	Backward Caste	Scheduled Caste	Muslims	Total
Almora	75(75.00)	--	25(25.00)	--	100(100.00)
Azamgarh	6(5.45)	44(40.00)	21(19.09)	39(35.46)	110(100.00)
Lakhimpur	42(42.00)	20(20.00)	36(36.00)	2(2.00)	100(100.00)
Lalitpur	18(18.00)	36(36.00)	45(45.00)	1(1.00)	100(100.00)
Muzaffarnagar	43(43.00)	14(14.00)	42(42.00)	1(1.00)	100(100.00)
Total	**184(36.08)**	**114(22.35)**	**169(33.14)**	**43(8.43)**	**510(100.00)**

Note : ***Figures in brackets show percentage to total.***

IV.3 AGE DISTRIBUTION

31.96 per cent of the sample households were young (i.e. between the age group 15-35); 52.55 per cent belonged to middle age group (i.e. between 36-55); and the remaining 15.49 per cent to the old age group (Table 4.2).

Table 4.2 :Distribution of Respondents by Age-Group

District	Age-Group (Years)				Total
	0-14	15-35	36-55	56+	
Almora	--	31(31.00)	52(52.00)	17(17.00)	100(100.00)
Azamgarh	--	29(26.36)	66(60.00)	15(13.64)	110(100.00)
Lakhimpur	--	30(30.00)	54(54.00)	16(16.00)	100(100.00)
Lalitpur	--	41(41.00)	47(47.00)	12(12.00)	100(100.00)
Muzaffarnagar	--	32(32.00)	49(49.00)	19(19.00)	100(100.00)
Total	--	**163(31.96)**	**268(52.55)**	**79(15.49)**	**510(100.00)**

Note : ***Figures in brackets show percentage to total.***

IV.4 EDUCATIONAL LEVEL

The distribution of respondents by educational level has been shown in Table 4.3. Only 22.16 per cent of the respondents were illiterate and 19.41 per cent were merely literate. The remaining 56.43 per cent respondents had received some formal schooling. A small number (2.74 per cent) of respondents were graduates.

Table 4.3: <u>Distribution of Respondents by Educational Level</u>

District	Illiterate	Literate	Primary	Secondary	Intermediate	Graduate	Professional Degree	Total
Almora	18 (18.00)	10 (10.00)	31 (31.00)	31 (31.00)	9 (9.00)	1 (1.00)	--	100 (100.00)
Azamgarh	30 (27.27)	33 (30.00)	32 (29.09)	8 (7.27)	5 (4.55)	2 (1.82)	--	110 (100.00)
Lakhimpur	20 (20.00)	21 (21.00)	25 (25.00)	19 (19.00)	10 (10.00)	4 (4.00)	1 (1.00)	100 (100.00)
Lalitpur	26 (26.00)	19 (19.00)	21 (21.00)	25 (25.00)	6 (6.00)	3 (3.00)	--	100 (100.00)
Muzaffar-nagar	19 (19.00)	16 (16.00)	26 (26.00)	25 (25.00)	9 (9.00)	4 (4.00)	1 (1.00)	100 (100.00)
Total	**113 (22.16)**	**99 (19.41)**	**135 (26.47)**	**108 (21.18)**	**39 7.65)**	**14 (2.74)**	**2 (0.39)**	**510 (100.00)**

Note : ***Figures in brackets show percentage to total.***

IV.5 OCCUPATIONAL DISTRIBUTION

The distribution of respondents by primary occupation has been shown in Table 4.4. The largest category (60.39 per cent) of the respondents belonged to the agriculturist class. About 19 per cent of the respondents were landless labourers. Remaining 20 per cent of the respondents were occupied in various occupations such as business (6.67 per cent), household industry (6.86 per cent), service (2.74 per cent) and other occupations (4.90 per cent).

Table 4.4 : Distribution of Respondents by Primary Occupation

Occupational Category	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar-nagar	Total
Agriculture	68 (68.00)	60 (54.55)	60 (60.00)	60 (60.00)	60 (60.00)	308 (60.39)
Agricultural Labour	4 (4.00)	2 (1.82)	11 (11.00)	5 (5.00)	7 (7.000)	29 (5.69)
Non-Agricultural Labour	10 (10.00)	18 (16.36)	9 (9.000)	15 (15.00)	13 (13.00)	65 (12.75)
Business	6 (6.00)	8 (7.27)	4 (4.00)	9 (9.00)	7 (7.00)	34 (6.67)
Household Industry	7 (7.00)	18 (16.36)	4 (4.00)	4 (4.00)	2 (2.00)	35 (6.86)
Service	5 (5.00)	1 (0.91)	5 (5.00)	1 (1.00)	2 (2.00)	14 (2.74)
Others	--	3 (2.73)	7 (7.00)	6 (6.00)	9 (9.00)	25 (4.90)
Total	**100 (100.00)**	**110 (100.00)**	**100 (100.00)**	**100 (100.00)**	**100 (100.00)**	**510 (100.00)**

Note : ***Figures in brackets show percentage to total.***

Most of the respondents (80.20 per cent) were engaged in some secondary occupation as well to supplement their income. Dairying was the main secondary occupation for 61.81 per cent of respondents, while 12.96 per cent also took to agriculture as the secondary occupation and 15.89 per cent also worked as labourers (Table 4.5). Very few households had non-agricultural activities as a secondary occupation.

Table 4.5 : Distribution of Respondents by Secondary Occupation

Occupational Category	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar-nagar	Total
Agriculture	12 (13.04)	10 (13.51)	9 (11.84)	6 (7.23)	16 (19.05	53 (12.96)
Agricultural Labour	2 (2.17)	1 (1.35)	8 (10.53)	8 (9.64)	4 (4.76)	23 (5.62)
Dairy	60 (65.22)	42 (56.75)	45 (59.21)	52 (62.65)	54 (62.65)	253 (61.86)
Non-Agricultural Labour	5 (5.44)	9 (12.16)	11 (14.47)	11 (13.26)	6 (7.14)	42 (10.27)
Household Industry	-	4 (5.41)	1 (1.32)	1 (1.20)	-	6 (1.47)
Service	9 (9.78)	4 (5.41)	-	2 (2.41)	2 (2.38)	17 (4.15)
Professional	1 (1.09)	-	-	1 (1.20)	-	2 (0.49)
Others	3 (3.26)	4 (5.41)	2 (2.63)	2 (2.41)	2 (2.38)	13 (3.18)
Total	**92 (100.00)**	**74 (100.00)**	**76 (100.00)**	**83 (100.00)**	**84 (100.00)**	**409 (100.00)**

Note : ***Figures in brackets show percentage to total.***

IV.6 SIZE OF FAMILY

An average sample household consisted of 5.94 members, out of which 3.22 (54.21 per cent) were males and 2.72 (45.79 per cent) were females (Table 4.6). Thus, there were only 0.84 females for every 1 male member in the family.

Table 4.6: Average Size of Sample Households by Sex

Districts	Male	Female	Total
Almora	3.00	2.65	5.65
Azamgarh	3.45	2.85	6.30
Lakhimpur	3.26	2.62	5.88
Lalitpur	3.19	2.76	5.95
Muzaffarnagar	3.19	2.70	5.89
Total	**3.22**	**2.72**	5.94

IV.7 AGE DISTRIBUTION OF FAMILY MEMBERS

Age distribution of the family members of the respondents has been shown in Table 4.7. Two-thirds (41.06 per cent) of the family members were children below 14 years of age. 32.80 per cent were in young age group (between 15-35 years) and 19.24 per cent were in middle age group (36-55 years). Old persons constituted 6.90 per cent of family members.

Table 4.7 : Distribution of Household Members by Age Group

Districts	0-14	15-35	36-55	56+	Total
Almora	214(37.88)	193(34.16)	113(20.00)	45(7.96)	565(100.00)
Azamgarh	283(40.84)	219(31.60)	141(20.35)	50(7.21)	693(100.00)
Lakhimpur	250(42.52)	190(32.31)	112(19.05)	36(6.12)	588(100.00)
Lalitpur	248(41.68)	208(34.96)	101(16.97)	38(6.39)	595(100.00)
Muzaffarnagar	249(42.28)	184(31.24)	116(19.69)	40(6.79)	589(100.00)
Total	**1244(41.06)**	**994(32.80)**	**583(19.24)**	**209(6.90)**	**3030(100.00)**

Note : ***Figures in brackets show percentage to total.***

IV.8 ACTIVITY STATUS OF FAMILY MEMBERS

Out of the total family members 13.33 per cent were young children and 34.03 per cent students (Table 4.9). The proportion of economically active members was 35.81 per cent giving a dependency ratio of 1.8. Only 1.32 per cent of family members were reported to be unemployed.

Table 4.9 : Distribution of Household Members by Activity Status

Districts	Child	Student	Working	Unem-ployed	House wife	Disabled	Retired	Total
Almora	62 (10.98)	192 (33.98)	235 (41.59)	11 (1.95)	56 (9.91)	3 (0.53)	6 (1.06)	565 (100.00)
Azamgarh	100 (14.43)	229 (33.05)	249 (35.93)	10 (1.44)	93 (13.42)	4 (0.58)	8 (1.15)	693 (100.00)
Lakhimpur	78 (13.27)	198 (33.67)	190 (32.31)	9 (1.53)	105 (17.86)	3 (0.51)	5 (0.85)	588 (100.00)
Lalitpur	91 (15.29)	196 (32.94)	209 (35.13)	3 (0.50)	90 (15.13)	1 (0.17)	5 (0.84)	595 (100.00)
Muzaffar-nagar	73 (12.39)	216 (36.67)	202 (34.30)	7 (1.19)	87 (14.77)	1 (0.17)	3 (0.51)	589 (100.00)
Total	**404 (13.33)**	**1031 (34.03)**	**1085 (35.81)**	**40 (1.32)**	**431 (14.22)**	**12 (0.40)**	**27 (0.89)**	**3030 (100.00)**

Note : ***Figures in brackets show percentage to total.***

IV.9 OCCUPATIONAL STRUCTURE OF HOUSEHOLD MEMBERS

Out of the 1085 family members reported to be economically active about half were engaged in agriculture and over one-fifth were working as labourers. A small number (6.27 per cent) were engaged in dairying. About 10 per cent were engaged in business or household industry and the remaining 11.43 per cent in service or miscellaneous occupation (Table 4.10).

Table 4.10 : Distribution of Household Members by Main Occupation

Occupational Category	Almora	Azamgarh	Lakhim-pur	Lalitpur	Muzaffar-nagar	Total
Agriculture	149 (63.40)	88 (35.34)	96 (50.53)	103 (49.28)	106 (52.48)	542 (49.95)
Agricultural Labour	12 (5.11)	16 (6.43)	35 (18.42)	33 (15.79)	27 (13.37)	123 (11.33)
Dairy	14 (5.96)	16 (6.43)	12 (6.31)	13 (6.22)	13 (6.44)	68 (6.27)
Non-Agricultural Labour	15 (6.30)	43 (17.27)	17 (8.95)	20 (9.57)	24 (11.88)	119 (10.97)
Business	11 (4.68)	7 (2.81)	6 (3.16)	12 (5.74)	10 (4.95)	46 (4.24)
Household Industry	--	60 (24.00)	2 (1.05)	1 (0.48)	--	63 (5.81)
Service	23 (9.79)	12 (4.82)	8 (4.21)	13 (6.22)	9 (4.45)	65 (5.99)
Other	11 (4.68)	7 (2.81)	14 (7.37)	14 (6.70)	13 (6.43)	59 (5.44)
Total	**235 (100.00)**	**249 (100.00)**	**190 (100.00)**	**209 (100.00)**	**202 (100.00)**	**1085 (100.00)**

Note : ***Figures in brackets show percentage to total.***

IV.10 OWNERSHIP AND VALUE OF HOUSEHOLD ASSETS

The value of physical assets owned per household was reported at Rs.4,35,616 but shows a large variation from a low of Rs.1,29,214 in Almora to Rs.8,02,544 in Muzaffarnagar district (Table 4.11). Land accounts for two-thirds of the value of total physical assets and house building for another one-fifth. Farm and non-farm equipment account for a little less than 10 per cent of household assets and durable household assets for around 3.5 per cent.

Table 4.11 : Value of Physical Assets Per Sample Households (in Rs.)

Type of Assets	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Land	62735 (48.55)	431311 (72.45	263153 (70.26)	119376 (45.82)	561915 (70.01)	290514 (66.69)
Building	36685 (28.39)	97575 (16.39)	60919 (16.27)	65665 (25.21)	139147 (17.34)	80343 (18.44)
Livestocks	10788 (8.35)	8673 (1.45)	7506 (2.00)	10080 (3.87)	13535 (1.69)	10088 (2.32)
Agricultural Implement and Machinery	671 (0.52)	26414 (4.44)	23155 (6.18)	40917 (15.71)	55933 (6.97)	28359 (6.74)
Transport Equipment	12 (0.01)	8619 (1.45)	4060 (10.08)	10347 (3.97)	12350 (1.54)	7108 (1.63)
Non-Farm Business Equipment	753 (0.58)	9148 (1.54)	1832 (0.49)	591 (0.23)	724 (0.09)	2738 (0.63)
Durable Household Assets	17568 (13.60)	13563 (2.28)	13922 (3.72)	13527 (5.19)	18940 (2.36)	15466 (3.55)
Total	**129214 (100.00)**	**595304 (100.00)**	**374546 (100.00)**	**260502 (100.00)**	**802544 (100.00)**	**435616 (100.00)**

Note : ***Figures in brackets show percentage to total.***

The value of financial assets per sample household is rather modest being Rs.11,054 only. An encouraging feature of our findings is that bulk of financial assets are kept in the form of deposits in banks or post offices and only a small amount is held in the form of cash (Table 4.12). Thus, 47.77 per cent of financial assets are kept in the form of bank deposits, 18.15 per cent in post office deposits and 16.05 per cent are held in the form of national saving certificates. The non-banking financial companies have not yet made a significant presence in the rural areas of the state. Less than 1 per cent of financial assets are kept as deposits in finance companies by

the sample households. In fact the presence of financial companies was found in a modest way only in two of the five districts surveyed, namely, Almora and Azamgarh.

Table 4.12 : **Financial Assets Owned per Sample Household** (in Rs.)

Financial Assets	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
National Savings Certificates	1790 (23.25)	918 (8.78)	1640 (14.88)	1815 (18.87)	2790 (16.87)	1774 (16.05)
Post Office Deposits	2153 (27.96)	1906 (18.23)	1250 (11.34)	1509 (15.69)	3225 (19.50)	2007 (18.15)
Deposits in Banks	2712 (35.23)	5206 (49.81)	6127 (55.59)	4385 (45.59)	7978 (48.24)	5280 (47.77)
Deposits in Companies	60 (0.78)	418 (4.00)	--	--	--	102 (0.92)
Shares and Debentures	--	364 (3.48)	--	--	120 (0.73)	102 (0.92)
Dues Receivable	--	--	80 (0.73)	550 (5.72)	1050 (6.35)	329 (2.98)
Cash in Hand	924 (12.00)	1105 (10.57)	1524 (13.03)	929 (9.66)	1233 (7.46)	1142 (10.33)
Other Items	60 (0.78)	536 (5.13)	400 (3.63)	430 (4.47)	140 (0.85)	318 (2.88)
Total	**7699 (100.00)**	**10453 (100.00)**	**11021 (100.00)**	**9618 (100.00)**	**16536 (100.00)**	**11054 (100.00)**

Note : ***Figures in brackets show percentage to total.***

On the whole financial assets account for only a small part (2.47 per cent) of the total value of household assets. However, if we exclude land and buildings the proportion of financial assets to total household assets rises to 17.07 per cent.

The total value of assets owned per sample household comes to Rs.4,46,670 (Table 4.13). However, there are marked variations across the districts. Richest households are found in Muzaffarnagar district followed at a distance by Azamgarh and Lakhimpur, while Lalitpur and Almora are at the bottom.

Table 4.13 : Total Physical and Financial Assets per Household(in Rs.)

District	Physical Assets	Financial Assets	Total
Almora	129214 (94.38)	7699 (5.62)	136913 (100.00)
Azamgarh	595304 (98.27)	10453 (1.73)	605757 (100.00)
Lakhimpur	374546 (97.14)	11021 (2.86)	385567 (100.00)
Lalitpur	260502 (96.44)	9618 (3.56)	270120 (100.00)
Muzaffarnagar	802544 (97.98)	16536 (2.02)	819080 (100.00)
Total	**435616 (97.53)**	**11054 (2.47)**	**446670 (100.00)**

Note : ***Figures in brackets show pereentage to total.***

Possession of different types of assets is an important indicator of the economic position of a household. Table 4.14 shows the proportion of sample households reporting ownership of different types of physical and financial assets. As many as 74.31 per cent of sample households owned milch cattle though only 33.73 per cent owned draft animals. 13.14 per cent of households owned tractors while 37.85 per cent owned tube wells or pump sets. 13.14 per cent households owned motor cycle or scooter but only 0.6 per cent households owned a car or jeep. Ownership of bullock cart was reported by 10.55 per cent of the sample households. Among the durable consumer goods a fairly high proportion (39.61 per cent) of the sample households

owned a TV set, but other items like refrigerator or washing machine were owned by only a handful of persons in our sample.

Table 4.14 : **Households Reporting Possession of Different Assets** (Per Cent)

Type of Assets	Almora	Azam-garh	Lakhi mpur	Lalitpur	Muzaffar Nagar	Total
Livestock						
Draft Animal	68.00	19.09	23.00	24.00	36.00	33.75
Milch Animal	90.00	62.73	66.00	75.00	79.00	74.31
Agricultural Machinery						
Tractor	--	10.00	9.00	16.00	31.00	13.14
Tubewell	--	20.91	24.00	12.00	41.00	19.61
Pumpset	--	14.55	19.00	37.00	21.00	18.24
Thresher	--	10.00	10.00	15.00	22.00	11.37
Cane Crusher	--	--	2.00	--	--	0.39
Harvester	--	1.82	2.00	2.00	8.00	2.75
Transport Equipment						
Car/Jeep	--	0.91	--	1.00	1.00	0.59
Motor Cycle/Scooter	--	18.18	11.00	19.00	17.00	13.14
Bullock Cart	--	6.36	10.00	5.00	32.00	10.59
Durable Household Assets						
TV	49.00	36.36	26.00	29.00	58.00	39.61
Refrigerator	--	3.64	1.00	1.00	4.00	1.96
Washing Machine	--	2.73	--	--	--	0.59
Financial Assets						
NSC	19.00	6.36	12.00	15.00	22.00	14.71
Post Office Deposits	43.00	34.55	15.00	28.00	50.00	34.12
Deposits in Bank	46.00	66.36	61.00	46.00	61.00	56.27
Deposits in Companies	2.00	5.45	--	--	--	1.57
Shares and Debentures	--	0.91	--	--	1.00	0.39

As many as 56.27 per cent of the sample households reported having a bank deposit and 34.12 per cent reported having post office deposits, while 14.71 per cent held national saving certificates. Only 2 respondents had invested in shares and debentures and only 8 (1.57 per cent) in deposits with financial companies. It may be surmised that saving habit has become common in the rural areas, though people still prefer to invest in safe assets like bank or postal deposits and NSCs.

IV.11 AVERAGE ANNUAL HOUSEHOLD INCOME

Table 4.15 shows the annual income per sample household by source in the selected districts. Average income for the sample households comes to Rs.39,865 giving a per capita income of Rs.6,711. Nearly half of the household income (49.57 per cent) is contributed by agriculture and one-sixth (15.02 per cent) by animal husbandry. Wage labour contributes 8.76 per cent of household income. Around 10 per cent of income is earned through business/ industry. Services and other sources contribute 10.16 per cent and 7.01 per cent of the family income respectively. Again we find the level of household income much higher in Muzaffarnagar as compared to the other districts, while lowest income is observed in the case of Almora district. One also observes differences in the contribution of different sources to total income across districts. The contribution of agriculture is relatively higher in Muzaffarnagar and Lakhimpur and that of business and industry in Azamgarh, while the share of income from animal husbandry and services is much higher in Almora district.

Table 4.15 : Annual Income Per Sample Household by Source (in Rs.)

Source	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Agriculture	5313 (20.69)	14547 (35.98)	28599 (65.25)	16643 (45.44)	34212 (64.93)	19759 (49.57)
Animal Husbandry	7537 (29.34)	5378 (13.30)	4573 (10.43)	6041 (16.49)	6473 (12.28)	5988 (15.02)
Wage Labour	2095 (8.16)	4206 (10.41)	3471 (7.92)	3805 (10.39)	3817 (7.24)	3493 (8.76)
Business/ Industry	1405 (5.47)	9045 (22.37)	2349 (5.36)	3432 (9.37)	2137 (4.06)	3779 (9.48)
Service	6410 (24.96)	4533 (11.21)	3148 (7.18)	2868 (7.883)	3246 (6.16)	4051 (10.16)
Other Services	2923 (11.38)	2722 (6.73)	1690 (3.86)	3840 (10.48)	2806 (5.33)	2795 (7.01)
Total	**25683 (100.00)**	**40431 (100.00)**	**43830 (100.00)**	**36629 (100.00)**	**52691 (100.00)**	**39865 (100.00)**
Per Capita Income	4546	6418	7454	6156	8946	6711

Note : ***Figures in brackets show percentage to total.***

Table 4.16 gives annual income per sample household by occupational category in the selected districts. The average income for cultivating households at Rs.50,250 was nearly double than that of non-cultivating households which stood at Rs.24,029. As would be expected the income of cultivating households increases with the size of holding. Thus the household income of large cultivators was around 7.5 times than that of the marginal cultivators. Among the non-cultivating households income levels were much higher for the people engaged in services. Per household income was found to be lowest for the rural labour households. Households engaged

in trade and business in rural informal sector were hardly better off, though the condition of people engaged in household industry was somewhat better as compared to the marginal farmers. Differences in the average household income in the same occupational category across districts were also fairly marked.

Table 4.16 : Annual Income Per Sample Household by Category (in Rs.)

Category	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Marginal	23788	26322	20676	20191	30793	24221
Small	42188	41456	39660	35808	46102	41197
Semi-Medium	--	76536	85169	49467	84231	72668
Medium	--	167231	111436	78727	127153	117650
Large	--	--	214589	130288	226304	180530
All Cultivators	**26494**	**53070**	**57636**	**46410**	**70810**	**50250**
Agricultural Labour	15328	16350	14588	20012	21941	17522
Non-Agricultural Labour	17927	17191	12016	16769	19588	16970
Business	22078	28631	18651	24350	23847	22839
Household Industry	--	33124	40052	24932	25090	30076
Service	49481	30000	58719	56550	64970	54106
Any Other	--	21957	18265	25208	29477	17436
Total Non-Cultivators	**23962**	**25266**	**23122**	**21957**	**25515**	**24029**
Grand Total	**25683**	**40432**	**43830**	**36628**	**52692**	**39864**

Table 4.17 shows the distribution of sample households according to annual household income. More than one-third sample households had an annual income level of below Rs.20,000 and another one-fourth were in the income bracket of Rs.20,000 to Rs.30,000. On the other side only 7.06 per cent of households were relatively well off with income exceeding Rs.1,00,000 per

year. The proportion of poorer households was distinctly lower in Muzaffarnagar district as compared to other districts.

Table 4.17 : **Income Group-wise Number of Sample Households**

Income Group (Rs.)	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Upto 10000	2 (2.00)	3 (2.73)	6 (6.00)	2 (2.00)	1 (1.00)	14 (2.74)
10000 - 20000	43 (43.00)	28 (25.45)	37 (37.00)	37 (37.00)	17 (17.00)	162 (31.76)
20000 - 30000	29 (29.00)	26 (23.64)	14 (14.00)	25 (25.00)	27 (27.00)	121 (23.75)
30000 - 40000	12 (12.00)	19 (17.27)	10 (10.00)	9 (9.00)	15 (15.00)	65 (12.74)
40000 - 50000	6 (6.00)	10 (9.09)	2 (2.00)	5 (5.00)	9 (9.00)	32 (6.27)
50000 - 75000	7 (7.00)	16 (14.54)	13 (13.00)	12 (12.00)	10 (10.00)	58 (11.37)
75000 - 100000	1 (1.00)	2 (1.82)	8 (8.00)	3 (3.00)	8 (8.00)	22 (4.31)
100000-150000	--	2 (1.82)	7 (7.00)	5 (5.00)	9 (9.00)	23 (4.51)
150000-200000	--	1 (0.91)	1 (1.00)	2 (2.00)	1 (1.00)	5 (0.98)
200000+	--	3 (2.73)	2 (2.00)	--	3 (3.00)	8 (1.57)
Total	**100 (100.00)**	**110 (100.00)**	**100 (100.00)**	**100 (100.00)**	**100 (100.00)**	**510 (100.00)**

Note : ***Figures in brackets show percentage to total.***

CHAPTER V

AGRICULTURAL ECONOMY OF THE SAMPLE HOUSEHOLDS

V.1 INTRODUCTION

Before we proceed with the analysis of various aspects of rural credit market in the study area, it would be appropriate to discuss the agricultural economy of the sample households. This part of the discussion is confined to the cultivating households, who constitute around 60 per cent of our sample. The discussion covers various aspects of the crop economy including land ownership, cropping intensity, cropping pattern, irrigated area, use of HYV and fertilizers, yield levels and net income per acre.

V.2 LAND OWNERSHIP AND SIZE OF HOLDING

The distribution of sample households according to the size of land holdings has been shown in Table 5.1. A little above one-fourth of the households (26.27 per cent) did not own any land. Majority of sample households (42.16 per cent) fell in the category of marginal farmers owning less than 2.5 acres of land. 14.90 per cent households were in the category of small farmers (2.5 to 5.0 acres), 8.24 per cent in the category of semi-medium farmers (5.0 to 10.0 acres), 6.27 per cent in the category of medium farmers (10.0 to 25.0 acres), while only 2.16 per cent were big farmers. The proportion of marginal land holdings was relatively higher in the hill district of Almora.

Table 5.1 : Distribution of Sample Households by Size of Land Holding (Nos.)

Size Category (Acres)	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Nil	14 (14.00)	38 (34.55)	27 (27.00)	33 (33.00)	22 (22.00)	134 (26.27)
0.00 - 2.50	76 (76.00)	39 (35.45)	33 (33.00)	29 (29.00)	38 (38.00)	215 (42.16)
2.51 - 5.00	10 (10.00)	17 (15.45)	19 (19.00)	13 (13.00)	17 (17.00)	76 (14.90)
5.01 - 10.00	--	10 (9.09)	9 (9.00)	12 (12.00)	11 (11.00)	42 (8.24)
10.01-25.00	--	6 (5.46)	10 (10.00)	8 (8.00)	8 (8.00)	32 (6.27)
25.01+	--	--	2 (2.00)	5 (5.00)	4 (4.00)	11 (2.16)
All Categories	100 (100.00)	110 (100.00)	100 (100.00)	100 (100.00)	100 (100.00)	510 (100.00)

Note : ***Figures in brackets show percentage to total households.***

The average size of land holding was 4.15 acres though it varied from 1.36 acres in Almora to 6.5 acres in Lalitpur district (Table 5.2). The area leased in was hardly 2 per cent of the operated area.

Table 5.2 : Area Owned and Operated by Sample Households (Acres)

Item	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Area Owned	116.80 (1.36)	266.00 (3.69)	367.28 (5.03)	423.79 (6.33)	382.80 (4.91)	1556.67 (4.14)
Area Leased in	1.00 (0.01)	0.25 (0.00)	4.56 (0.06)	26.00 (0.39)	1.00 (0.01)	32.81 (0.09)
Area Leased out	0.50 (0.01)	4.00 (0.06)	4.00 (0.05)	14.00 (0.21)	6.00 (0.08)	28.50 (0.08)
Area Operated	117.30 (1.36)	262.25 (3.64)	367.84 (5.04)	435.79 (6.50)	377.80 (4.84)	1560.98 (4.15)

Note : ***Figures in brackets show area per cultivating household.***

V.3 CROPPING INTENSITY

The cropping intensity on the sample farms was quite high at 166.3 (Table 5.3). Nearly entire area was under double cropping in the districts of Almora and Lalitpur. However, cropping intensity was relatively lower in the districts of Lakhimpur and Muzaffarnagar which specialize in cultivation of sugarcane, a crop of long duration.

Table 5.3 : Gross Croped Area on Sample Farms (Acres)

Item	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Net Sown Area	117.30 (1.36)	262.25 (3.65)	367.84 (5.04)	434.94 (6.49)	376.80 (4.83)	1559.13 (4.15)
Double Cropped Area	117.00 (1.36)	202.10 (2.81)	165.45 (2.27)	416.29 (6.21)	133.60 (1.71)	1034.44 (2.75)
Gross Cropped Area	234.30 (2.72)	464.35 (6.45)	533.29 (7.31)	851.23 (12.70)	510.40 (6.54)	2593.57 (6.90)
Cropping Intensity	**200.0**	**176.7**	**145.0**	**195.7**	**135.4**	**166.3**

Note : ***Figures in brackets show area per households.***

V.4 EXTENT OF IRRIGATION

Over four-fifths of the gross cropped area on the sample farms was irrigated. Nearly all of the gross cropped area was under irrigation in the districts of Azamgarh, Lakhimpur and Muzaffarnagar (Table 5.4). However, in Almora and Lalitpur districts only around two-thirds of cropped area received irrigation.

Table 5.4 : Total and Per Cent of Irrigated Area on Sample Farms (Area in Acres)

District	Irrigated Area	Unirrigated Area	Total Area
Almora	143.25 (61.14)	91.05 (38.86)	234.30 (100.00)
Azamgarh	430.95 (92.81)	33.40 (7.19)	464.35 (100.00)
Lakhimpur	522.54 (97.98)	10.75 (2.02)	533.29 (100.00)
Lalitpur	554.88 (65.19)	296.35 (34.81)	851.23 (100.00)
Muzaffarnagar	505.65 (99.07)	4.75 (0.93)	510.40 (100.00)
Total	**2157.27(83.18)**	**436.30 (16.82)**	**2593.57 (100.00)**

Note : ***Figures in brackets show percentage to gross cropped area.***

V.5 CROPPING PATTERN

Cropping pattern on the sample farms has been shown in Table 5.5. Around 75 per cent of the cropped area were under foodgrains, wheat and paddy being the most important cereal crops in all the districts. The farmers of Almora and Lalitpur were more oriented towards foodgrain crops, which accounted for over 90 per cent of gross cropped area in these districts. Farmers in Lalitpur district, where irrigation facilities are less, specialized in the growing of coarse cereals and pulses. Among the non-foodgrain crops sugarcane was found to be the dominant crop followed at a distance by oilseeds. In fact, sugarcane was found to be the most important crop in Lakhimpur and Muzaffarnagar districts, accounting for over one-third of the gross cropped area.

Table 5.5 : Cropping Pattern on Sample Farms (Acres)

Crop	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Paddy	89.15 (38.05)	180.70 (38.91)	156.6 (29.36)	132.29 (15.54)	104.75 (20.52)	663.49 (25.58)
Wheat	97.20 (41.49)	154.21 (33.21)	133.15 (24.97)	274.34 (32.23)	111.10 (21.77)	770.00 (29.69)
Coarse Cereals	22.20 (9.47)	10.55 (2.27)	1.25 (0.23)	123.05 (14.46)	9.90 (1.94)	166.95 (6.44)
Pulses	6.10 (2.60)	40.34 (8.69)	25.25 (4.74)	252.68 (29.68)	23.40 (4.58)	347.77 (13.41)
Sugarcane	--	49.20 (10.60)	192.14 (36.03)	--	221.70 (43.44)	463.04 (17.85)
Oilseeds	17.55 (7.49)	18.87 (4.06)	17.80 (3.34)	53.40 (6.27)	13.25 (2.60)	120.87 (4.66)
Vegetable	1.80 (0.77)	6.70 (1.44)	0.80 (0.15)	7.62 (0.90)	14.10 (2.76)	31.02 (1.20)
Other Crops	0.30 (0.13)	3.78 (0.82)	6.30 (1.18)	7.85 (0.92)	12.20 (2.39)	30.43 (1.17)
Gross Cropped Area	**234.30 (100.00)**	**464.35 (100.00)**	**533.29 (100.00)**	**851.23 (100.00)**	**510.40 (100.00)**	**2593.57 (100.00)**

Note : ***Figures in brackets show percentage to gross cropped area.***

V.6 USE OF MODERN INPUTS

Use of modern inputs like HYV seeds and fertilizers is an indicator of modernization of agriculture and also affects the credit demand. We find that nearly 90 per cent area under foodgrain crops was under high yield variety seeds (Table 5.6). Only in Almora we found that less than half of the foodgrain area was covered by HYV seeds.

Table 5.6 : Total and Per Cent Area Under HYV Seeds on Sample Farms

District	Area Under HYV (Acres)	Area Under Foodgrain (Acres)	Area Under HYV as Per Cent of Area Under Foodgrains
Almora	98.99	214.65	46.12
Azamgarh	346.65	385.80	89.85
Lakhimpur	303.26	316.25	95.89
Lalitpur	632.15	779.96	81.05
Muzaffarnagar	233.75	249.15	93.82
Total	**1614.80**	**1945.81**	**89.99**

Fertilizer use was found to be fairly high on the sample farms. On an average 59 kg. of fertilizer was used per acre of gross cropped area on the sample farms. It was found to be highest in Lakhimpur district followed by Muzaffarnagar and Azamgarh. In Almora and Lalitpur districts, where irrigated area is relatively less, fertilizer consumption was also found to be relatively lower (Table 5.7).

Table 5.7 : Fertilizer Use Per Acre of Gross Cropped Area on Sample Farms

District	Fertilizer Use Per Acre (in Kg.)
Almora	24
Azamgarh	64
Lakhimpur	84
Lalitpur	43
Muzaffarnagar	68
Total	**59**

V.7 PER ACRE YIELD

Per acre yield was reported at 11.57 qtls. for paddy, 10.00 qtls. for wheat and 237.92 qtls. for sugarcane. However, significant variations in yield levels are observed across the selected districts (Table 5.8). Thus, yield levels were distinctly higher in Muzaffarnagar and Lakhimpur districts as compared to the other three districts. The hill district of Almora was lagging behind other districts in terms of yield per acre, with Azamgarh and Lalitpur falling in the intermediate category.

Table 5.8 : Per Acre Yield of Major Crops on Sample Farms (Quintals)

District	Paddy	Wheat	Sugarcane
Almora	9.74	7.79	--
Azamgarh	10.63	9.61	223.68
Lakhimpur	13.22	11.00	246.38
Lalitpur	10.71	9.24	--
Muzaffarnagar	13.35	13.20	233.74
Total	**11.57**	**10.00**	**237.92**

V.8 GROSS AND NET INCOME PER ACRE

Gross and net income per acre on sample farms in different districts is shown in Table 5.9. The gross income per net acre sown amounted to Rs.11,090 and the net income to Rs.6364. However, considerable variations are observed among districts. Income per acre was found to be

highest in Muzaffarnagar district closely followed by Lakhimpur. Lalitpur and Almora were lagging significantly behind other districts in gross and net income per acre. The differences in income per acre were found to be closely linked with differences in the cost of cultivation per acre. The cost - output ratio did not shown much variation across districts.

Table 5.9 : Gross and Net Income Per Net Acre Sown on Sample Farms (Rs.)

Districts	Gross Income	Cost of Cultivation	Net Income	Ratio of Gross Income to Cost
Almora	7699	3212	4486	2.40
Azamgarh	10374	4350	6023	2.38
Lakhimpur	13709	5983	7726	2.29
Lalitpur	7049	3333	3716	2.11
Muzaffarnagar	14755	5842	8920	2.53
Total	**11090**	**4726**	**6364**	**2.35**

A moderate trend of economies of scale in terms of income per acre was observed upto the size category 10.0 to 25.0 acres, which was found to be most efficient in economic terms (Table 5.10). But there was a significant fall in income per acre in case of holdings above 25.0 acres. Marginal holdings upto 2.5 acres were found to be least productive because of their resource handicap. Thus, our field data provides an evidence of the changing nature of size productivity relationship in agriculture in Uttar Pradesh.

Table 5.10 : Gross and Net Income Per Net Acre Sown on Sample Farms by Size Category

(Rs.)

Size Category (In Acres)	Gross Income	Cost of Cultivation	Net Income	Ratio of Gross Income to Cost
Upto 2.50	9957	4469	5487	2.23
2.50 - 5.00	11468	5009	6458	2.29
5.00 - 10.00	11569	4855	6713	2.38
10.00 - 25.00	11896	4833	7062	2.46
25.00 +	10109	4393	5715	2.30
All Groups	**11090**	**4726**	**6364**	**2.35**

CHAPTER VI

RURAL CREDIT MARKET : THE DEMAND SIDE

VI.1 INTRODUCTION

In this chapter we propose to discuss the dimension and various aspects of the demand side of the rural credit market in Uttar Pradesh and the relative roles of the formal and informal credit as revealed by our field survey. The discussion covers the extent of borrowing by the rural households by different sources, purpose of borrowing, duration of loans, rate of interest paid and nature of security offered. For purpose of analysis the sample households have been classified into appropriate occupational and income groups. The discussion reports the position of outstanding cash borrowings by sample households at the time of the survey which was carried out during the period October 1998 and March 1999. The analysis also covers the extent of borrowing during the agricultural year 1997-98 to get an idea of the annual borrowing activities.

VI.2 EXTENT OF RURAL INDEBTEDNESS

Table 6.1 shows the distribution of households reporting loans outstanding in different districts by occupational category. A very high proportion (74.71 per cent) of rural households have reported having outstanding loans except in the hill district of Almora where less than half of the households were found to be indebted. Thus, an overwhelming majority of rural

households have to resort to borrowing for one reason or another at some time in a year. The percentage of indebted households is much higher in our sample as compared to the figures given by All India Debt and Investment Survey conducted by NSSO. However, there are strong reasons to believe that the indebtedness reported by AIDIS is on a lower side (Bell, 1990). Incidence of indebtedness is relatively more among poorer sections like landless labourers, artisans and marginal farmers. On the whole, the proportion of indebted households was more among non-cultivating households as compared to the cultivating households, except for people employed in services.

Table 6.1 : Distribution of Households Reporting Outstanding Loans by Category

Category	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Marginal Farmers	23 (39.66)	25 (92.59)	21 (100.00)	20 (90.91)	18 (90.00)	107 (72.30)
Small Farmers	4 (40.00)	11 (64.71)	15 (83.33)	12 (92.31)	8 (47.06)	50 (66.67
Semi Medium Farmers	--	5 (50.00)	8 (88.89)	7 (58.33)	8 (72.73)	28 (66.67)
Medium Farmers	--	2 (33.33)	7 (70.00)	7 (87.50)	5 (62.50)	21 (65.63)
Large Farmers	--	--	1 (50.00)	3 (60.00)	3 (75.00)	7 (63.64)
Agricultural Labour	4 (100.00)	2 (100.00)	11 (100.00)	5 (100.00)	6 (85.71)	28 (96.55)
Non-Agricultural Labour	8 (80.00)	18 (100.00)	9 (100.00)	14 (93.33)	13 (100.00)	62 (95.38)
Business	4 (66.67)	6 (75.00)	4 (100.00)	6 (66.67)	5 (71.43)	25 (73.53)
Household Industry	4 (57.14)	13 (72.22)	4 (100.00)	4 (100.00)	2 (100.00)	27 (77.14)
Service	--	--	3 (60.00)	--	--	3 (27.43)
Others	--	2 (66.67)	7 (100.00)	6 (100.00)	8 (88.89)	23 (92.00)
Total	**47 (47.00)**	**84 (76.36)**	**90 (90.00)**	**84 (84.00)**	**76 (76.00)**	**381 (74.71)**

Note : ***Figures in brackets show percentage to total.***

Out of the 381 sample households reporting outstanding loans 143 households (37.53 per cent) had taken loans exclusively from the institutional sources and 168 households (44.10 per cent) had taken loans exclusively from non-institutional sources (Table 6.2). The remaining 70 households (18.37 per cent) had borrowed from both the sources. The average amount of institutional loan per household was significantly lower in case of households seeking loans from both the sources as compared to those who depended exclusively on institutional loans. Thus, it appears that some of the poorer households with access to institutional loans find it necessary to approach the informal credit market for their credit requirement.

Table 6.2 : **Distribution of Households Reporting Loans Outstanding by Source**

Source of Loan	No. of Households Reporting Outstanding Loan	Amount of Loan (Rs.)	Outstanding Loan Per Reporting Household (Rs.)
1. Institutional	143(37.53)	14,83,407(62.57)	10,373
2. Non-Institutional	168(44.10)	4,28,129(18.06)	2,548
3. Both	70(18.37)	4,59,243(19.37)	6,561
(a) Institutional	70(18.37)	2,51,160(10.59)	3,588
(b) Non-Institutional	70(18.37)	2,08,083(8.78)	2,973
4. Total Institutional	213(55.90)	17,34,567(73.16)	8,144
5. Total Non-Institutional	238(62.47)	6,36,212(26.84)	2,673
Total	381(100.0)	23,70,779(100.0)	6,223

Note : Figures in brackets show per cent to total.

Looking at the source-wise indebtedness we find that about half of the cultivating households had taken loans from the cooperative societies, but only around 12 per cent had approached RRB or Commercial Banks (Table 6.3). About 15 per cent cultivating households had borrowed from agricultural money-lenders and less than 3 per cent from professional money-lenders. The access of non-cultivating households to institutions sources of credit was found to

be very low. Less than one-fourth of the non-cultivating households reported borrowing from institutional sources, but around 60 per cent of them were indebted to non-institutional lenders mainly agricultural money-lenders and professional money-lenders. A little above 10 per cent of sample households reported borrowing from friends and relatives. Thus, cooperative societies and agricultural money-lenders are the two major sources of credit in the rural areas.

Table 6.3 : **Distribution of Households Reporting Loans Outstanding by Source**

Sl. No	Credit Sources	Cultivating Households		Non-Cultivating Households		Total Households	
		No.	Per Cent	No.	Per Cent	No.	Per Cent
A.	**Institutional Sources**	208	67.53	46	22.77	254	49.80
1.	Cooperative Societies	153	49.68	27	13.37	180	35.29
2.	Cooperative Bank/Land Development Bank	15	4.87	9	4.46	24	4.71
3.	Regional Rural Banks	16	5.19	5	2.48	21	4.11
4.	Commercial Banks	20	6.49	4	1.98	24	4.70
5.	Provident Fund	4	1.30	1	0.50	5	0.98
B.	**Non-Institutional Sources**	99	32.14	176	87.12	275	53.92
6.	Landlords	7	2.27	8	3.96	15	2.94
7.	Agricultural Money-Lenders	46	14.94	94	46.53	140	27.45
8.	Professional Money-Lenders	8	2.60	22	10.89	30	5.88
9.	Traders	15	4.87	17	8.42	32	6.27
10.	Friends and Relatives	23	7.47	31	15.35	54	10.59
11.	Others	--	--	4	1.98	4	0.78
C.	**All Sources**	213	69.16	168	83.17	381	74.71
	Total Households	**308**	**100.0**	**202**	**100.0**	**510**	**100.0**

Note : Totals do not tally as some households have borrowed from more than one sources.

The amount of indebtedness per household reporting outstanding loans by household category has been shown in Table 6.4. Average amount of indebtedness per household ranged from a low of Rs.3276 in Almora to Rs.8595 in Azamgarh district. The extent of indebtedness was expectedly lowest among labour households being Rs.1746 for agricultural labourers and Rs.2531 for non-agricultural labourers. The amount of indebtedness was found related to size of holding showing an increase from Rs.3287 for marginal farmers to Rs.51,150 for large farmers.

Table 6.4 : **Category-wise Outstanding Loan Per Reporting Household** (Rs.)

Household Category	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Marginal Farmers	2923	4192	1820	2320	5282	3287
Small Farmers	5712	6532	6893	4818	7300	6286
Semi Medium Farmers	--	31260	7150	13857	6825	13039
Medium Farmers	--	77500	7471	11521	4200	14712
Large Farmers	--	--	70000	36333	59683	51150
Agricultural Labour	1588	1625	1409	2120	2200	1746
Non-Agricultural Labour	2494	1469	2144	1779	5100	2531
Business	6250	8142	2375	8525	7837	6947
Household Industry	3153	11808	6660	3263	12051	8515
Service	--	--	6903	--	--	6903
Others	--	1000	1824	333	3225	1851
Total	**3276**	**8595**	**4728**	**5864**	**7588**	**6223**

VI.3 INDEBTEDNESS BY SOURCE

Table 6.5 shows source-wise outstanding loans per sample household and Table 6.6 shows the per cent share of different credit sources in total outstanding loan. Average outstanding loans per sample household amounted to Rs.4649 out of which Rs.3401 (73.16 per cent) was from institutional sources and Rs.1247 (26.84 per cent) from non-institutional sources. The share of institutional sources was relatively higher in Azamgarh and Lakhimpur districts where institutional sources accounted for around 80 per cent of total borrowings. Cooperative societies and commercial banks are now the major institutional sources of rural credit accounting for 28.43 per cent and 26.78 per cent of total credit respectively. Regional Rural Banks accounted for another 10 per cent of rural credit. Differences in the relative share of different credit agencies were, however, observed across districts. Thus, commercial banks accounted for 44.75 per cent of total credit in Azamgarh but for only 3.57 per cent of credit in Almora.

Table 6.5 : **Amount of Outstanding Loans Per Sample Household by Source** (in Rs.)

Source	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Cooperative Societies	378.77	1778.18	1461.80	1751.95	1191.00	1321.47
Cooperative Bank/LDB	265.00	137.37	235.00	525.00	280.00	285.49
Regional Rural Bank	142.65	463.64	290.00	250.00	1210.00	471.11
Commercial Bank	55.00	2936.36	480.00	1290.00	1295.00	1245.10
Provident Fund	110.00	90.91	87.50	100.00	--	77.94
Total Institutional Loans	**951.42**	**5406.36**	**2554.30**	**3916.95**	**3976.00**	**3401.11**
Landlord	--	134.54	297.00	75.00	40.00	109.80
Agriculture Money-lender	198.00	295.45	445.00	645.70	682.25	450.19
Professional Money-lender	--	31.82	246.00	145.00	165.00	115.88
Trader	--	434.55	330.00	57.00	335.00	235.29
Relatives & Friends	390.32	260.91	383.00	86.00	318.00	287.12
Others	--	--	--	--	250.85	49.19
Total Non-Institutional Loans	**588.82**	**1157.27**	**1701.00**	**1008.70**	**1791.10**	**1247.47**
Total Loan	**1539.74**	**6563.63**	**4255.30**	**4925.65**	**5767.10**	**4648.58**

Table 6.6 : **Source-wise Outstanding Loans per Household** (in Per Cent)

Source	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar Nagar	Total
Cooperative Societies	24.60	27.09	34.35	35.56	20.65	28.43
Cooperative Bank/LDB	17.21	2.09	5.52	10.66	4.86	6.14
Regional Rural Bank	9.27	7.06	6.82	5.08	20.98	10.13
Commercial Bank	3.57	44.74	11.28	26.19	22.45	26.78
Provident Fund	7.14	1.39	2.06	2.03	--	1.68
Total Institutional Loans	**61.79**	**82.37**	**60.03**	**79.52**	**68.94**	**73.16**
Landlord	--	2.05	6.98	1.52	0.69	2.36
Agriculture Money-lender	12.86	4.50	10.46	13.11	11.83	9.69
Professional Money-lender	--	0.48	5.78	2.94	2.86	2.49
Trader	--	6.62	7.75	1.16	5.81	5.06
Relatives & Friends	25.35	3.98	9.00	1.75	5.52	6.18
Others	--	--	--	--	4.35	1.06
Total Non-Institutional Loans	**38.21**	**17.63**	**39.97**	**20.48**	**31.06**	**26.84**
Total Loan	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

The informal or non-institutional sources still continue to play a significant though declining role in the rural credit market. Thus, the share of informal sector in outstanding loans per household is around 40 per cent in Almora and Lakhimpur districts, though it has come down to around 31 per cent in Muzaffarnagar and around 20 per cent in Azamgarh and Lalitpur. It needs to be added that still over half of the rural households approach informal sources for credit.

Among the informal sources of credit the agricultural money lender has emerged as the chief player accounting for over one-third of informal sector credit and about one-tenth of total credit. Traders provide about 5 per cent of rural credit, while friends and relatives about 6 per cent. Dependence on friends and relatives was found to be particularly high in Almora district. Professional moneylenders and landlords were found to be relatively unimportant players in the rural credit market in the study villages.

VI.4 INDEBTEDNESS OF CULTIVATING HOUSEHOLDS

Indebtedness of cultivating households by source of credit has been shown in Table 6.7. Average outstanding loan per cultivating household was reported at Rs.5513. Amount of outstanding loan shows a sharp increase with the size of holding rising from Rs.2376 for marginal farmers to Rs.32550 for large farmers. On the whole 84.30 per cent of outstanding loan for cultivating household was due to formal institutions and only 15.70 per cent to informal sources. Around one-third of outstanding loans are accounted for by cooperative societies and a similar amount by commercial banks.

Table 6.7 : **Outstanding Loan Per Cultivating Household by Size Category and Source of Loan** (Amount in Rs.)

Credit Source	Marginal Farmers	Small Farmers	Semi-Medium Farmers	Medium Farmers	Large Farmers	All Farmers
Cooperative Societies	618.22 (26.02)	1319.75 (31.49)	2347.62 (27.00)	3779.53 (39.15)	12277.27 (37.72)	1769.71 (32.10)
Cooperative Bank/LDB	118.92 (5.00)	480.00 (11.46)	285.71 (3.29)	156.25 (1.62)	--	229.22 (4.16)
Regional Rural Bank	304.05 (12.79)	936.87 (22.35)	--	--	7090.91 (21.78)	627.48 (11.38)
Commercial Bank	128.38 (5.40)	473.33 (11.29)	5452.38 (62.72)	5093.75 (52.76)	13181.82 (40.50)	1920.45 (34.83)
Provident Fund	74.32 (3.13)	--	--	625.00 (6.47)	--	100.65 (1.83)
Total Institutional Loans	**1243.89 (52.34)**	**3209.95 (76.59)**	**8085.71 (93.02)**	**9654.53 (100.00)**	**32550.00 (100.00)**	**4647.52 (84.30)**
Landlord	66.22 (2.79)	266.67 (6.36)	--	--	--	96.75 (1.75)
Agriculture Money-lender	357.94 (15.06)	240.93 (5.75)	95.24 (1.10)	--	--	243.65 (4.42)
Professional Money-lender	46.62 (1.96)	53.33 (1.27)	35.71 (0.41)	--	--	40.26 (0.73)
Trader	187.16 (7.88)	133.33 (3.18)	476.19 (5.48)	--	--	187.34 (3.40)
Relatives & Friends	474.54 (19.97)	286.67 (6.85)	--	--	--	297.83 (5.40)
Others	--	--	--	--	--	--
Total Non-Institutional Loans	**1132.48 (47.66)**	**980.93 (23.41)**	**607.14 (6.98)**	--	--	**865.83 (15.70)**
Total Loan	**2376.37 (100.00)**	**4190.88 (100.00)**	**8692.85 (100.00)**	**9654.53 (100.00)**	**32550.00 (100.00)**	**5513.36 (100.00)**

Note : ***Figures in brackets show percentage.***

Important differences are, however, noticeable in the relative importance of institutional credit for different categories of farmers. Thus, institutional sources provided only about half of the credit requirement of the marginal farmers and about two-thirds credit requirement of small farmers, while whole of the credit requirement of medium and large farmers was met by the

institutional sources. In particular the access of small and marginal farmers to commercial bank credit seemed to be limited. The record of the cooperative societies was much better in this respect.

The inequity in access to institutional credit is further revealed by the fact that the large farmers who constituted only 3.6 per cent of the sample households cornered about 25 per cent of institutional credit, while marginal farmers, who constituted 48.0 per cent of the sample households received only 13.1 per cent of institutional credit (Table 6.8). The inequity in credit availability was found to be particularly sharp in case of commercial banks, which supplied less than 10 per cent of their credit to the small and marginal farmers. The performance of the Regional Rural Banks was distinctly better in this respect. The cooperative societies are also serving the interests of the medium and large farmers to a greater extent, though the inequity in credit distribution is less sharp in their case.

Turning to the borrowing by cultivators from informal sector we find that still about half of the credit requirement of the marginal farmers and about one-fourth of the credit requirement of the small farmers is being met by this sector. Friends and relatives contribute about one-third of total informal credit and agricultural moneylenders a little less than that. Professional money-lenders, traders and landlords are providing an insignificant part of rural credit in the study area.

The importance of informal credit for the marginal and small farmers is further revealed by the fact that they accounted for 62.6 per cent and 27.6 per cent respectively of total informal credit received by the cultivating households.

Table 6.8 : **Per Cent Share of Cultivating Households in Total Institutional Loans by Size Class**

Size Class		Coopera-tive Societies	Coopera-tive/Land Develop-ment Bank	Regional Rural Banks	Commer-cial Banks	Total Institu-tional Loan
Marginal Farmers	(48.05)	16.79	24.93	23.28	3.21	13.11
Small Farmers	(24.35)	18.15	50.99	36.36	6.00	17.14
Semi-Medium Farmers	(13.64)	18.09	17.00	--	38.72	24.18
Medium Farmers	(10.39)	22.19	7.08	--	27.56	20.57
Large Farmers	(3.57)	24.78	--	40.36	24.51	25.50
All Farmers	**(100.00)**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Note : ***Figures in brackets show percentage to total cultivating households.***

VI.5 INDEBTEDNESS OF NON-CULTIVATING HOUSEHOLDS

Indebtedness of non-cultivating households by source of credit has been shown in Table 6.9. The table reveals that the weaker sections have to depend almost wholly upon the informal credit market for their credit requirement. Thus over 90 per cent of outstanding loans in case of rural labour households were from the informal sector. Rural labour households accounted for over 50 per cent of total outstanding loans taken by non-cultivating households from the informal sector. Agricultural moneylenders provided bulk of credit requirement for this group. Professional moneylenders also provided a larger proportion of loans to the rural labour households as compared to the cultivating household. The share of outstanding loans provided by the professional money lenders was found to be highest for persons engaged in service.

The rural households engaged in business and household industry were able to get nearly three-fourths of their credit requirements from the institutional sources mainly from cooperative credit institutions or RRBs. The share of commercial bank credit in their case too was found to be quite low.

Table 6.9 : Outstanding Loan Per Non-Cultivating Household by Type of Household and Source of Loan

(Amount in Rs.)

Credit Source	Agricul-tural Labour	Non-Agricul-tural Labour	Business	House-hold Industry	Service	Others	Total Non-Cultivating House-holds
Cooperative Societies	--	--	367.65 (6.66)	3162.86 (53.79)	54.29 (3.67)	196.80 (9.90)	638.02 (19.16)
Cooperative Bank/ LDB	--	--	1705.88 (30.90)	357.14 (6.07)	--	180.00 (9.06)	371.29 (11.15)
Regional Rural Bank	68.97 (4.09)	--	1176.47 (21.31)	142.86 (2.43)	--	--	232.67 (6.99)
Commercial Bank	--	238.46 (9.69)	529.41 (9.59)	285.71 (4.86)	--	--	215.35 (6.47)
Provident Fund/ Insurance	--	--	--	--	625.00 (42.25)	--	43.32 (1.30)
Total Institutional Loans	**68.97 (4.09)**	**238.46 (9.69)**	**3779.41 (68.47)**	**3948.57 (67.15)**	**679.29 (45.92)**	**376.80 (18.96)**	**1500.64 (45.05)**
Landlord	34.48 (2.04)	18.46 (0.75)	661.76 (11.99)	--	--	60.00 (3.02)	129.70 (3.89)
Agriculture Money-lender	1034.48 (61.35)	1087.69 (44.22)	450.00 (8.15)	331.43 (5.64)	--	1078.00 (54.26)	765.10 (22.98)
Professional Money-lender	241.38 (14.32)	253.85 (10.32)	129.41 (2.35)	114.29 (1.94)	714.29 (48.29)	192.00 (9.66)	231.19 (6.94)
Trader	--	407.69 (16.57)	147.06 (2.66)	860.00 (14.63)	--	28.00 (1.41)	308.42 (9.26)
Relatives & Friends	306.90 (18.20)	300.00 (12.19)	29.41 (0.54)	625.71 (10.64)	85.71 (5.79)	88.00 (4.43)	270.79 (8.13)
Others	--	153.85 (6.25)	323.03 (5.85)	--	--	164.08 (8.26)	124.18 (3.73)
Total Non-Institutional Loans	**1617.24 (95.91)**	**2221.54 (90.31)**	**1740.68 (31.53)**	**1931.43 (32.85)**	**800.00 (54.08)**	**1610.08 (81.04)**	**1829.38 (54.95)**
Total Loan	**1686.21 (100.00)**	**2460.00 (100.00)**	**5520.09 (100.00)**	**5880.00 (100.00)**	**1479.29 (100.00)**	**1986.88 (100.00)**	**3330.02 (100.00)**

Note : ***Figures in brackets show percentage.***

Taking the non-cultivating households together we find that nearly 55 per cent of their outstanding debt is due to the informal sector, while this proportion is around 15 per cent for the cultivating households. Agricultural money-lenders provided about 40 per cent of the informal sector credit to these households. Around 17 per cent of outstanding loans were due to traders and about 15 per cent to friends and relatives.

VI.6 INDEBTEDNESS BY SIZE OF LOAN

Table 6.10 shows the distribution of indebted households and the amount of outstanding loan by the size of loan. Small borrowers predominate the rural credit market. Thus, 68.36 per cent of indebted households had outstanding loans of below Rs.3000, though their share in outstanding loans was only 18.72 per cent. Only 2.66 per cent of borrowers had outstanding loans of Rs.25,000 and above. However, they accounted for 31.74 per cent of the outstanding loans.

Even in the case of formal sector majority of borrowers had taken small amounts of loans. Thus, nearly 55 per cent of formal sector loans were below Rs.3000 and another 23.94 per cent in the range of Rs.3000 to Rs.10000. Their share in outstanding loans was, however, much smaller at 6.21 per cent and 19.57 per cent. On the other hand, only 21.60 per cent of indebted households with institutional loans exceeding Rs.10,000 accounted for 74.22 per cent of institutional loans.

In case of the informal credit market bulk of transactions were on an even smaller scale as compared to the formal credit market. Thus, in case of as many as 30.13 per cent of borrowers taking loan from the informal sector, outstanding loan size was below Rs.1000 and in another 50.63 per cent cases between Rs.1000 and Rs.3000. These two groups accounted for 46.39 per cent of the outstanding loans from the informal sector. A little more than 16.00 per cent of informal sector borrowers were in the category of loans between Rs.3000 and Rs.10,000, while only 2.93 per cent had outstanding loans above Rs.10,000. The share of these two groups in the outstanding loans was 34.01 per cent and 19.60 per cent respectively. No household reported outstanding loan of more than Rs.25,000 from the informal sector.

Table 6.10: **Per Cent Distribution of Indebted Households and Amount of Outstanding Loans by Loan Amount and Source**

Loan Amount (in Rs.)	Formal Sources		Informal Sources		All Sources	
	Number	Amount	Number	Amount	Number	Amount
Upto 1000	25.82	2.36	30.13	8.40	28.10	3.98
1000 – 3000	28.64	6.21	50.63	37.99	40.26	14.74
3000 - 5000	7.04	3.43	9.62	16.13	8.41	6.84
5000 - 7500	8.45	6.55	2.93	4.66	5.53	6.05
7500 – 10000	8.45	9.59	3.76	13.22	5.97	10.56
10000 – 15000	10.33	15.76	0.84	3.73	5.31	12.53
15000 – 25000	5.63	12.71	2.09	15.87	3.76	13.56
25000 – 50000	2.35	8.33	--	--	1.11	6.10
50000 – 100000	2.82	27.56	--	--	1.33	20.16
100000+	0.47	7.50	--	--	0.22	5.48
Total	**100.00 (213)**	**100.00 (17.35)**	**100.00 (238)**	**100.00 (6.36)**	**100.00 (451)**	**100.00 (23.71)**

Note : ***Figures in brackets show number of indebted households and amount of outstanding loans in Rs. Lakh.Out of the total 381 indebted households 70 households had taken loans from both formal and informal sources. Their details are included in appropriate column.***

VI.7 INDEBTEDNESS BY HOUSEHOLD ASSET AND INCOME LEVEL

A major feature of rural credit market is the greater dependence of poorer households on the informal sources of credit as compared to the non-poor households, who have better access to institutional credit. In this section we have analyzed the indebtedness of rural households to formal and informal sources of credit by their asset and the income level.

Table 6.11 shows the extend of indebtedness by source of credit and household asset level. As expected we find an inverse relationship between the share of loans from the informal sources and the value of household assets. The poorest category of households, i.e. with household assets upto Rs.50,000 have a very limited access to institutional credit and depend primarily on informal sources of credit. The share of informal sector in total loans sharply declines with the rise in the asset category.

Table 6.11 : **Indebtedness by Source of Loan and Household Asset Category per Indebted Household**

Asset Category (Rs.'000)	No. of Respon-dents	Formal Loans (Rs.)	Informal Loans (Rs.)	Total Loans (Rs.)	Debt-Asset Ratio (%)
0- 25	32	159(10.18)	1406(89.82)	1566(100.0)	8.71
25- 50	65	355(15.50)	1939(84.50)	2295(100.0)	6.27
50- 100	63	1059(38.94)	1660(61.06)	2719(100.0)	3.49
100- 150	35	2759(55.47)	2214(44.53)	4973(100.0)	3.91
150- 200	30	5199(76.96)	1556(23.04)	6755(100.0)	3.79
200- 250	20	3100(42.31)	4226(57.69)	7327(100.0)	3.25
250- 500	58	4645(80.18)	1148(19.82)	5793(100.0)	1.59
500-1000	46	5671(78.99)	1509(21.01)	7179(100.0)	0.98
1000-2500	24	12429(98.19)	229(1.81)	12658(100.0)	0.81
2500 & above	8	50731(100.0)	--	50731(100.0)	1.38
All Households	**381**	**4553 (73.16)**	**1670 (26.84)**	**6223 (100.0)**	**1.39**

Note : Figures in brackets show percentage to total loan.

The debt-asset ratio is fairly low and declines sharply from around 8.71 per cent in the lowest asset category to around 1.00 per cent in higher asset categories. The reason for such a low debt-asset ratio is the high value of land, which constitutes nearly two-thirds of the total value of household assets. It is well known that the value of agricultural land has gone up sharply in the wake of the green revolution. If we exclude land the debt-asset ratio goes up from 1.39 per cent to 3.99 per cent.

Table 6.12 : Distribution of Indebted Household by Source of Loans and Income Groups

Annual Household Income (in Rs.'000)	Outstanding Loans Per Indebted Household (in Rs.)		
	Formal Sector	Informal Sector	Total
Upto 10	83(4.81)	1642(95.19)	1725(100.00)
10 to 20	1514(49.26)	1559(50.79)	3073(100.00)
20 to 30	1746(47.43)	1956(52.57)	3702(100.00)
30 to 40	3536(57.48)	2616(42.52)	6152(100.00)
40 to 50	6505(77.39)	1900(22.61)	8405(100.00)
50 to 75	6558(81.57)	1482(18.43)	8040(100.00)
75 to 100	7253(88.55)	938(11.45)	8191(100.00)
100 to 150	21497(99.56)	94(0.44)	21591(100.00)
150 to 200	31167(100.00)	----	31167(100.00)
200 and above	60810(100.00)	----	60810(100.00)
All Households	**4553(73.16)**	**1670(26.84)**	**6223(100.00)**

Note : Figures in brackets show percentages.

We find a similar inverse relationship between the share of informal loans in total loans and the level of household income (Table 6.12). Households with annual income level upto Rs.10,000 are depending almost entirely on the informal credit market for their credit needs. Households with annual income between Rs.10,000 and Rs.40,000 meet half their credit requirement from the informal sources. The share of informal sector loans goes down to around one-fifth in the income groups between Rs.40,000 and Rs.75,000 and further to around one-tenth

in the income group between Rs.75,000 and Rs.100,000. Households with income levels above Rs.100,000 have to rarely approach the informal sector for their credit requirement and depend almost wholly on the institutional sources of credit. Thus, our study provides support to the oft-repeated fact that the institutional sources of credit are primarily meeting the credit requirement of the rural rich.

Table 6.13 : Extent of Indebtedness by Level of Household Income

Annual Household Income (in Rs.'000)	Indebted Households		Debt-Income Ratio (%)
	No.	% to Household in the Group	
Upto 10	12	85.71	19.09
10 to 20	142	87.65	19.42
20 to 30	89	73.55	15.13
30 to 40	45	69.23	18.63
40 to 50	20	62.50	17.90
50 to 75	33	56.90	12.67
75 to 100	16	72.73	10.39
100 to 150	16	69.57	16.39
150 to 200	3	60.00	17.09
200 and above	5	62.50	20.75
All Households	**381**	**74.71**	**16.43**

The proportion of indebted households also goes down with the rise in household income, though more than half of the households even in the upper income levels are indebted (Table 6.13). The average debt-income ratio is 16.43 per cent but shows a U shape pattern going down initially, but rising again as one moves up the income scale. The reason for this type of relationship is that the credit requirements of middle income groups are moderate, but rise sharply in case of higher income groups. The latter groups mostly belong to the category of big cultivators, who take loans for costly farm equipment like tractors, tube-wells, etc.

VI.8 INDEBTEDNESS BY PERIOD OF LOAN

Rural credit market in U.P. is dominated by short period transactions. Thus, as many as 56.33 per cent of loans were taken for a duration of less than 6 months accounting for 37.65 per cent of total borrowings (Table 6.14). Another 27.22 per cent of loans were for a period of 6 to 12 months accounting for 17.98 per cent of total borrowing. Only 16.44 per cent of loans were for period exceeding 1 year, though the share of these loans in total amount of borrowing was 44.02 per cent. This suggests that longer duration loans are of relatively larger size, which take a longer period for repayment. Very few transactions are for a period above two years.

Table 6.14 : Distribution of Loans by Period of Loans

Period of Loan (in months)	Per Cent of Total Loans Taken			Per Cent of Loan Amount		
	Formal	Informal	Total	Formal	Informal	Total
Upto 3	--	6.9	3.59	--	4.7	1.25
3 to 6	67.3	39.3	52.74	39.1	29.0	36.40
6 to 12	7.1	45.8	27.22	6.7	50.1	18.33
12 to 24	10.6	7.6	9.07	18.8	15.8	17.98
24 to 36	13.0	0.4	6.42	23.1	0.5	17.05
36 to 60	2.0	--	0.95	12.3	--	8.99
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

In case of the informal sector loans it was found that 46.2 per cent loans were for a period of less than six months and another 45.8 per cent for a period of 6 to 12 months. The share of these loans in total informal sector loans was 33.7 per cent and 50.1 per cent respectively (Table 6.14). Less than 10 per cent of loan transactions in the informal sector were for a period exceeding twelve months accounting for 16.3 per cent of such loans. On the other hand slightly above one-fourth of formal sector loans were for long period (i.e. one year and above) and their

share in total formal sector loans was as much as 54.2 per cent. It would thus appear that the informal rural credit market is primarily meeting the short term consumption credit needs, while supplementing short term capital requirements of its clients. On the other hand long term capital requirements of rural sector are being met mainly by the formal sector. The share of informal sector in total credit in case of our sample households was found to be 40 per cent in case of short term credit (i.e. loans upto one year) but only 10 per cent in case of long term credit (i.e. loans exceeding one year).

VI.9 INDEBTEDNESS BY RATE OF INTEREST

The rural credit markets are notorious for their usurious interest charges. It is, therefore, worthwhile to examine the indebtedness in the study area by the rate of interest. The institutional sources provide credit at regulated interest rates, which are markedly below the nominal interest rates charged in the informal sector. In our study villages the most quoted interest rates in the informal sector were 3 or 5 per cent a month, though some cases of interest rate of 10 per cent a month were also found.

The distribution of loans by interest rates paid by the sample households is shown in Table-6.15. It is noteworthy that 45.56 per cent of loans incurred were at interest rates below 15 per cent and the share of such loans in total loan amount was as high as 70.36 per cent. These are obviously institutional loans. Among high interest paying groups largest number (27.03 per cent) was paying interest between 30-50 per cent, corresponding to the oft quoted rate of 3 per cent per month. This was followed by the group paying 50 to 70 per cent of interest, corresponding to the reported rate of 5 per cent per month. In some cases even higher interest rates are charged but such cases were admittedly exceptional.

Table 6.15 : **Distribution of Loans by Rate of Interest**

Rate of Interest (% per annum)	Per Cent of Total Loans	Per Cent of Loan Amount
Nil	0.38	0.07
0 – 15	45.56	70.36
15 – 30	8.13	4.80
30 – 50	27.03	16.33
50 – 75	15.69	7.46
75 – 100	1.89	0.46
100+	1.32	0.52
All Loans	**100.00**	**100.00**

The average annual interest rate reported by the indebted households came to 14.40 per cent in case of formal sector loans and 48.88 per cent in case of informal sector loans. Systematic differences were observed between the interest rates and the category of household. In general, non-cultivating households who have to depend on informal credit market to a greater extent had contracted loans at relatively higher rates as compared to the cultivating households (Table 6.16). Within the cultivating households it was found that the medium and large farmers obtained their total loans at a rate below 15 per cent, but the marginal farmers had obtained nearly half of their loans at rates ranging above 30 per cent. In case of non-cultivating households also an inverse relation between rate of interest paid and economic status of borrower was observed. Thus, households belonging to business and household industry category were able to get bulk of their loans at rates below 15 per cent. However, the rural labour households, who basically depend upon informal credit market, had to pay exorbitant rates ranging from 30 to 75 per cent per annum for most of the loans taken by them. Thus, the benefit of concessional interest rate charged by institutional lenders is basically going to the richer rural households.

Table 6.16 : Distribution of Loan Amount by Rate of Interest and Type of Household

Type of Households	Annual Rate of Interest in Per Cent					
	0-15	15-30	30-50	50-75	75+	Total Loans
Marginal Farmers	52.64	2.99	33.45	8.04	2.90	100.00
Small Farmers	67.34	11.80	14.32	6.54	--	100.00
Semi-Medium Farmers	84.69	8.74	--	6.57	--	100.00
Medium Farmers	100.00	--	--	--	--	100.00
Large Farmers	100.00	--	--	--	--	100.00
All Cultivators	**80.85**	**4.68**	**9.58**	**4.29**	**0.60**	**100.00**
Agricultural Labourers	4.09	11.86	48.77	25.67	9.61	100.00
Non-Agricultural Labourers	10.07	6.88	64.63	15.60	2.82	100.00
Business	70.06	1.60	14.11	14.23	--	100.00
Household Industry	62.29	5.83	19.92	10.69	1.27	100.00
Services	45.92	5.79	--	48.29	--	100.00
Others	18.96	2.62	60.20	15.70	2.52	100.00
All Non-Cultivators	**44.11**	**5.10**	**33.39**	**15.46**	**1.94**	**100.00**
All Households	**70.43**	**4.80**	**16.33**	**7.46**	**0.98**	**100.00**

VI.10 INDEBTEDNESS BY TYPE OF SECURITY

Around 60 per cent of the outstanding loans were obtained against the security of land or some other asset. Remaining loans were based on personal security or third party security. The pattern of security, however, differed significantly in case of institutional and non-institutional loans. Nearly all the institutional loans with some exceptions were obtained on the basis of security of asset (mainly land) or third party security. In case of non-institutional loans hardly 10 per cent of the loans were secured loans (Table 6.17 (i)).

Table 6.17(i): **Per Cent Distribution of Outstanding Loans by Type of Security and Source of Loan**

Type of Security	Institutional Loans	Non-Institutional Loans	Total Loans
1. Personal Security	3.11	86.19	25.40
2. Third Party Security	19.95	1.21	14.92
3. Mortgage of Land	75.41	3.38	56.08
4. Bullion and Jewellery	--	4.17	1.11
5. Shares & Stocks	0.35	--	0.25
6. Without Security	1.18	5.12	2.24
Total Loans	100.00	100.00	100.00

The credit worthiness and terms of loan by a rural borrower are strongly influenced by the type of collateral he is able to offer as security. In our sample we found that over half of the loans were based upon mortgage of land and about one-fourth upon personal security (Table 6.17). Systematic differences were, however, observed in the type of security offered by the cultivating and the non-cultivating households. As would be expected cultivating households are able to obtain loan on the basis of land asset owned by them. However, in case of the marginal farmers less than half of the loans were against the security of land.

Table 6.17(ii) : **Per Cent Distribution of Outstanding Loans by Type of Security and Household Category**

Household Category	Personal Security	Third Party Security	Mortgage of Land	Bullion & Jewellery	Shares, Stocks, etc.	Without Security	Total Loans
Marginal Farmers	45.95	3.98	44.49	0.71	1.74	3.13	100.00
Small Farmers	20.23	10.74	69.03	--	--	--	100.00
Semi-Medium Farmers	6.98	18.90	74.12	--	--	--	100.00
Medium Farmers	--	--	93.53	--	--	6.47	100.00
Large Farmers	--	--	100.00	--	--	--	100.00
All Cultivators	**14.76**	**6.88**	**76.02**	**0.15**	**0.36**	**1.82**	**100.00**
Agricultural Labourers	71.17	4.09	--	13.29	--	11.45	100.00
Non-Agricultural Labourers	81.61	9.69	--	6.38	--	2.32	100.00
Business	38.46	43.42	14.92	1.60	--	1.60	100.00
Household Industry	31.88	64.38	2.77	0.97	--	--	100.00
Service	54.08	--	3.67	--	--	42.25	100.00
Others	74.80	10.87	8.29	4.03	--	2.01	100.00
All Non-Cultivators	**55.25**	**9.99**	**5.73**	**3.52**	**--**	**3.27**	**100.00**
ALL HOUSEHOLDS	**25.40**	**14.92**	**56.08**	**1.11**	**0.25**	**2.24**	**100.00**

The non-cultivating sections without a tangible asset like land were able to get loans largely from the informal sources on the basis of personal security. This was found to be particularly true for the rural labour households. In some cases the loans to this category of households were against the security of bullion and jewellery. In case of households engaged in business and household industry most of the loans were obtained on the basis of the third party security.

Our data clearly reveals that the majority of the weaker sections including marginal farmers, landless labourers and artisans, who have to largely depend upon the informal credit market to meet their borrowing needs bulk of loans are obtained on the basis of personal security, not backed by valuable assets. This underscores the fact that the transactions in the rural informal credit markets take place in a localised area where the lenders and borrowers are in close personal touch. The rural money lender is thus able to overcome the problem of screening, which is difficult and costly for the institutional credit agencies. The rural money lender, who in most cases is also the large cultivator, is also able to use the instrument of unsecured credit to ensure supply of farm labour at the needed time in future. The formal credit institutions on the other hand insist on collateral like land or third party guarantee to advance loans thereby limiting the access of institutional credit to the asset-less rural population.

VI.11 DISTRIBUTION OF INDEBTEDNESS BY PURPOSE OF LOAN

Table 6.18 shows the distribution of outstanding loans from formal and informal sources by purpose of loan. The formal sector is providing credit basically for the productive purpose. About 75 per cent of institutional loans were for capital or current expenditure in agriculture and about 23 per cent for non-farm business. It looks that a small part of institutional loans are diverted to non-productive purposes.

Table 6.18 : Distribution of Outstanding Loans by Purpose (Per Cent)

Purpose of Loan	Formal Sources	Informal Sources	Total Loan
Capital Expenditure in Farm Business	43.60	--	31.90
Current Expenditure in Farm Business	29.30	14.62	25.36
Capital Expenditure in Non-Farm Business	21.83	9.93	18.64
Current Expenditure in Non-Farm Business	1.38	0.99	1.28
Total Productive Purposes	**96.12**	**25.54**	**77.18**
Construction/Repair of house	1.55	18.05	5.98
Purchase of Consumer durables	0.12	1.93	0.60
Consumption	--	20.68	5.53
Religious and Social Ceremonies	1.94	24.73	8.06
Medical Treatment	--	4.70	1.26
Repayment of Old Debt	0.26	3.39	1.10
Any others	--	1.02	0.27
Total Non-Productive Purposes	**3.88**	**74.45**	**22.81**
Total Loans	**100.00**	**100.00**	**100.00**

On the other hand around three-fourths of loans from the informal sector are used for non-productive purposes. Religious and social ceremonies account for nearly one-third of total informal sector loans while consumption expenditure and construction or repair of house account

for about one-fourth of loan each. Around one-sixth of informal sector loans were to meet current expenditure in agriculture and about one-tenth for non-farm business. Significantly, no respondent reported having taken loans for capital expenditure in agriculture from the informal sector. In short, informal sector is primarily meeting the current consumption or social requirement of the rural population.

VI.12 INSTITUTIONAL FACILITIES AND BORROWING LEVELS

We have hypothesized that the reliance on informal credit market would decline with the expansion of the institutional sources of credit. The villages surveyed by us were classified into two categories, namely, villages having a commercial bank branch or a cooperative society (i.e. developed villages) and villages at least five kilometres away from the institutional sources of credit (i.e. backward villages). The term developed and backward are used here in a narrow sense of the availability of institutional credit facility and not in a general sense of overall economic conditions.

Table 6.19 shows the situation with respect to outstanding loan per household from institutional and non-institutional sources in the developed and the backward villages. No systematic differences were observed between developed and backward villages either in terms of level of borrowing or dependence on informal sources of credit. Per household borrowing from non-institutional sources is reported at Rs.1285 in developed villages and at Rs.1208 in backward villages. The share of non-institutional credit in total outstanding credit was also nearly at the same level in the two types of villages, being 26.54 per cent and 27.17 per cent respectively.

Table 6.19 : **Amount and Per Cent of Outstanding Loan per Household from Institutional and Non-Institutional Sources in Developed and Backward Villages**

District/Village	Institutional Sources		Non-Institutional Sources		All Sources	
	Amount (Rs.)	Per Cent	Amount (Rs.)	Per Cent	Amount (Rs.)	Per Cent
Almora						
Developed Village	846.30	51.20	806.64	48.80	1652.94	100.00
Backward Village	1056.54	74.06	370.00	25.94	1426.54	100.00
Azamgarh						
Developed Village	7175.83	86.12	1156.67	13.88	8332.50	100.00
Backward Village	3283.00	73.92	1158.00	26.08	4441.00	100.00
Lakhimpur						
Developed Village	1663.40	46.00	1953.00	54.00	3616.40	100.00
Backward Village	3445.20	70.39	1449.00	29.61	4894.20	100.00
Lalitpur						
Developed Village	3896.90	83.36	778.00	16.64	4674.70	100.00
Backward Village	3937.00	76.06	1239.40	23.94	5176.40	100.00
Muzaffarnagar						
Developed Village	3479.00	66.44	1824.50	28.97	6297.50	100.00
Backward Village	4473.00	71.03	1791.10	31.06	5767.10	100.00
All Districts						
Developed Village	3557.04	73.46	1285.26	26.54	4842.30	100.00
Backward Village	3238.95	72.83	1208.18	27.17	4447.47	100.00

Note: ***Developed Villages are those with a bank branch or cooperative society, while backward villages are those which are at least 5 kms. away from these facilities.***

The absence of any association between local availability of institutional sources of credit and the role of informal credit market observed in our study can be explained in terms of the following factors. Firstly, institutional credit facilities are now fairly widespread in the rural areas and one does not have to travel far to obtain these facilities. Secondly, since the institutional sources limit themselves to the provision of credit basically for productive purposes, their clients have to approach the informal credit market to meet credit requirement for non-productive purposes like consumption and social expenditure.

VI.13 FREQUENCY OF BORROWINGS

Dependence of rural households on credit can be assessed by the frequency of borrowing. In our sample we found that only 10.39 per cent of households had not borrowed during the last 10 years while 3.92 per cent households had borrowed once and 6.08 per cent twice (Table 6.20). These are generally the well to do households who can meet their investment and consumption requirements from their own income. However, over two-thirds of the rural households reported borrowing frequently in most of the cases more than 4-5 times during the last decade either for production or consumption purpose.

Table 6.20: Per Cent Distribution of Sample Households by Frequency of Borrowing During Last Ten Years

Frequency of Borrowing	No. of Households Reporting Borrowing	Per Cent of Total Households
Nil	53	10.39
Once	20	3.92
Twice	31	6.08
Thrice	57	11.18
Four-Five Times	95	18.63
More than Five Times	254	49.80
Total Households	**510**	**100.00**

Respondents were also asked to report their borrowings during the past ten years from different sources to get an idea of their dependence on formal and informal sources of credit. The data on frequency of borrowing have been presented in Table 6.21. The most frequently tapped source of credit was cooperative societies, which were approached by half of the sample families in many cases more than 4-5 times. It looks that the cooperative societies are basically

meeting the credit requirement of about one-third of the rural households, although their performance is better than that of other institutional sources of credit. Only one-fourth of the sample households reported having taken loans from commercial banks or Regional Rural Banks in the last 10 years, while another 10 per cent had borrowed from Cooperative Bank/LDB. The frequency of borrowing from banking institutions was also quite low.

Table 6.21 : **Frequency of Borrowing in Last Ten Years by the Sample Households by Source**

(Nos.)

Credit Source	No. of Times Borrowed					Total No.of Borrowing Households
	1	2	3	4 to 5	More than 5	
(A) **Institutional Sources**						
Cooperative Societies	11(2.2)	13(2.5)	35(6.9)	64(12.5)	132(25.9)	255(50.0)
Cooperative Banks/LDB	22(4.3)	16(3.1)	7(1.4)	1(0.2)	1(0.2)	47 (9.2)
Regional Rural Banks	38(7.4)	12(2.4)	1(0.2)	--	--	51(10.0)
Commercial Banks	67(13.1)	9(1.8)	3(0.6)	--	--	79(15.5)
Provident Fund	6(1.2)	1(0.2)	--	--	--	7(1.4)
(B) **Non-Institutional Sources**						
Land Lord	8(1.6)	5(0.9)	8(1.6)	1(0.2)	1(0.2)	23(4.5)
Agricultural Money Lender	6(1.2)	34(6.7)	42(8.2)	59(11.6)	36(7.0)	177(34.7)
Professional Money Lender	7(1.4)	5(1.0)	9(1.7)	2(0.4)	--	23(4.5)
Trader	6(1.2)	10(2.0)	5(1.0)	10(2.0)	10(2.0)	41(8.0)
Relatives & Friends	28(5.5)	70(13.7)	29(5.7)	3(0.6)	1(0.2)	131(25.7)
Others	4(0.8)	--	--	--	--	4(0.8)

Among the informal sources of credit most frequently approached sources are agricultural moneylenders followed by friends and relatives. A little above one-third of the sample households had borrowed from the agricultural moneylenders and around one-fourth households from friends and relatives in the last 10 years, in most cases more than once or twice. A relatively small number of sample households (i.e. around 20 per cent) had approached other informal sources of credit like landlords, professional moneylenders or traders.

VI.14 CURRENT LEVEL OF BORROWINGS

The analysis of outstanding loans carried out in the previous sections does not give a correct idea about the current level of borrowing. To examine this aspect we collected information on borrowings in the current year, which correspondents to the agricultural year 1997-98. Table 6.22 gives source-wise borrowing per household during July 1997 and June 1998 and Table 6.23 gives percentage share of different agencies.

Table 6.22: Amount of Borrowing Per Household During July 1997 and June 1998 by Source

(in Rs.)

Source	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar-nagar	Total
(A) Institutional Sources						
Cooperative Socieites	317.50	1385.91	955.00	1400.00	840.00	987.65
Cooperative Banks/LDB	210.00	118.18	195.00	370.00	260.00	228.43
Regional Rural Banks	120.00	363.64	260.00	260.00	970.00	394.12
Commercial Banks	65.00	1772.73	420.00	1070.00	1080.00	899.02
Provident Fund	100.00	54.55	65.00	--	--	44.12
Total Formal Loans	**812.50**	**3695.00**	**1895.00**	**3100.00**	**3150.00**	**2553.33**
(B) Non-Institutional Sources						
Land Lord	--	133.64	280.00	70.00	38.00	104.90
Agricultural Money Lender	165.00	278.18	365.00	537.00	550.00	377.06
Professional Money Lender	--	36.36	230.00	140.00	155.00	110.78
Trader	--	368.18	235.00	55.00	285.00	192.16
Relatives & Friends	328.00	228.18	275.00	85.00	283.00	239.61
Others	--	--	--	--	240.00	47.06
Total Informal Loans	**493.00**	**1044.55**	**1385.00**	**887.00**	**1551.00**	**1071.57**
Total Loans	**1305.50**	**4739.55**	**3280.00**	**3187.00**	**4701.00**	**3624.90**

Table 6.23: **Share of Different Credit Agencies in Total Borrowing Per Household During July 1997 and June 1998**

(in Per Cent)

Source	Almora	Azam-garh	Lakhim-pur	Lalitpur	Muzaffar-nagar	Total
(C) Institutional Sources						
Cooperative Socieites	24.32	29.24	29.12	35.11	17.87	27.25
Cooperative Banks/LDB	16.09	2.49	5.95	9.28	5.53	6.30
Regional Rural Banks	9.19	7.67	7.93	6.52	20.63	10.87
Commercial Banks	4.98	37.40	12.80	26.84	22.97	24.80
Provident Fund	7.66	1.15	1.98	--	--	1.22
Total Formal Loans	**62.24**	**77.96**	**57.77**	**77.75**	**67.01**	**70.44**
(D)Non-Institutional Sources						
Land Lord	--	2.82	8.54	1.76	0.81	2.89
Agricultural Money Lender	12.64	5.87	11.13	13.47	11.70	10.40
Professional Money Lender	--	0.77	7.01	3.51	3.30	3.06
Trader	--	7.77	7.16	1.38	6.06	5.30
Relatives & Friends	25.12	4.82	8.38	2.13	6.02	6.61
Others	--	--	--	--	5.11	1.30
Total Informal Loans	**37.76**	**22.04**	**42.23**	**22.25**	**32.99**	**29.56**
Total Loans	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

Current borrowing per household amounted to Rs.3625 out of which Rs.2553 were borrowed from formal sector and Rs.1072 from the informal sector. Thus, the share of formal sector amounts to 70.44 per cent of current borrowings. Among the formal sources most important source was cooperative societies followed by commercial banks, with a share of 27.25 per cent and 24.80 per cent respectively in total current borrowing.

Around 30 per cent of current borrowing was from the informal sector out of which one-third credit was provided by the agricultural money lenders. The share of informal sector in current loans was relatively higher in Almora (37.75 per cent) and Lakhimpur (42.23 per cent) as compared to the other districts.

Current borrowing per household (Rs.3625) forms about 78.00 per cent of outstanding loans per household (Rs.4649). The share of informal sector loans in current year borrowing (29.56 per cent) is also roughly comparable with the share of these loans in outstanding borrowings (26.84 per cent).

On an average an amount of Rs.3127 was repaid by the sample households to the different credit agencies on account of current loans, out of which Rs.2646 (84.6 per cent) was towards the repayment of principal amount and remaining Rs.481 (15.4 per cent) towards interest charges (Table 6.24). Thus, around 73 per cent of principal amount of current loans was repaid during the same year by the borrowing households. The relevant proportion was 71 per cent in case of formal sector loans and 77 per cent in case of informal sector loans.

Table 6.24 : **Amount of Loan Repaid per Household During the Period July 1997 and June 1998**

(in Rs.)

Items	To Institutional Sources	To Non-Institutional Sources	To All Sources
Principal Amount	1816.76(89.59)	829.02(84.55)	2645.78(84.64)
Interest Amount	211.13(10.41)	269.74(15.45)	480.86(15.36)
Total Amount	**2027.89(100.00)**	**1098.76(100.00)**	**3126.64(100.00)**

Note : ***Figures in brackets show percentages***

VI.15 CREDIT REQUIREMENTS

We have also tried to assess the total annual credit requirement for productive and non-productive purposes of the sample households. A little less than 80 per cent of the sample households expressed a need of credit with an average credit requirement of around Rs.7166. Some differences in credit requirement across districts were also observed. Thus, only around 60 per cent of sample households in Almora expressed need for credit, while this proportion was around 90 per cent in Lalitpur. Average credit requirement also ranged from Rs.4534 in Almora to Rs.9687 in Lalitpur (Table 6.25).

Table 6.25 : **Average Credit Requirement Per Reporting Household**

District	Per Cent Households Reporting Need for Credit	Amount of Credit Required (in Rs.)
Almora	59.0	4534
Azamgarh	70.9	6683
Lakhimpur	85.0	6767
Lalitpur	89.0	9687
Muzaffarnagar	83.0	7199
All Districts	**77.3**	**7166**

Credit requirement of most of the households are quite modest. Thus, around 40 per cent of households reported credit requirement between Rs.1000 and Rs.3000, 20 per cent households needed credit in the range of Rs.3000 to Rs.5000, while another 20 per cent households put their credit requirement in the range of Rs.5000 to Rs.10,000 (Table 6.26). Only in case of about 20 per cent households credit demand was above Rs.10,000 per year.

Table 6.26 : <u>Credit Requirement by Amount of Credit per Reporting Household</u>

Amount of Credit Required (in Rs.)	No. of Households Requiring Credit	Average Amount of Credit Required
1000 - 3000	154 (39.1)	1957
3000 - 5000	80 (20.3)	4360
5000 - 7500	39 (9.9)	6395
7500 – 10000	40 (10.2)	9313
10000 – 15000	42 (10.7)	13529
15000 - 25000	29 (7.4)	21017
25000 +	10 (2.5)	37380
All Households	**394 (100.0)**	**7166**

Note : ***Figures in brackets show percent of total households reporting credit requirement***

Looking at the purpose-wise requirement per household we find that 54.80 per cent of credit is needed for current farm expenditure and 17.75 per cent for current non-farm business expenditure (Table 6.27). Around 27.50 per cent credit is required for various non-productive purposes like consumption, medical or social expenses. The need for non-productive loans was found to be relatively higher in the districts of Almora and Azamgarh as compared to the other districts.

Table 6.27 : **Purpose-wise Average Credit Required Per Sample Household**

(Rs.)

Name of Districts	Current expenditure for Agriculture	Current expenditure for non-farm business	Consumption requirement	Medicine, treatment, etc.	Other purposes	Total
Almora	772 (28.85)	923 (34.50)	665 (24.86)	120 (4.49)	195 (7.29)	2675 (100.00)
Azamgarh	2194 (46.29)	282 (5.94)	1362 (28.73)	195 (4.11)	727 (15.34)	4740 (100.00)
Lakhimpur	3413 (59.34)	987 (17.16)	707 (12.29)	245 (4.26)	400 (6.95)	5752 (100.00)
Lalitpur	4926 (57.14)	2260 (26.22)	968 (11.23)	367 (4.26)	100 (1.16)	8621 (100.00)
Muzaffarnagar	3970 (66.44)	535 (8.95)	325 (5.43)	570 (9.54)	575 (9.62)	5975 (100.00)
Total	**3034 (54.80)**	**983 (17.75)**	**816 (14.73)**	**297 (5.36)**	**406 (7.33)**	**5536 (100.00)**

Note : ***Figures in brackets show percentages***

The demand for credit is not evenly spread throughout the year as can be seen from Table 6.28. Credit demand is highest during the months of May and June, when there is a sudden bulge in demand for credit for marriage, repair of house, etc. as well as for crop loans. Credit demand again goes up during winter months of December and January, i.e. the period of Rabi sowing. The period from February to March and September to November are lean periods from the point of view of borrowing activities.

Table 6.28 : Frequency of Borrowing by Month

Month	Number of Borrowing Households	Per Cent of Total Loans During the Year
January	58	11.74
February	25	5.06
March	14	2.83
April	30	6.07
May	67	13.56
June	127	25.71
July	30	6.07
August	45	9.11
September	27	5.46
October	14	2.83
November	20	4.05
December	37	7.48
Total Loans	**494**	**100.00**

An idea about the gap in credit demand and supply in the rural areas can be obtained by comparing the reported credit requirement per household and the actual borrowing per household reporting during the current year. On the whole it looks that about two-thirds of the credit need is met in case of our sample households (Table 6.29). Institutional sources are able to meet

around 45 per cent of the credit need. The demand-supply gap in rural credit was found to be quite low in Azamgarh and Muzaffarnagar districts but was substantial in the other three districts.

Table 6.29: Gap Between Credit Demand and Supply per Sample Household

District	Amount of Credit Required (Rs.)	Actual Borrowing in 1997-98 (Rs.)	Gap Between Credit Demand and Supply (%)
Almora	2675	1306	48.82
Azamgarh	4740	4740	100.00
Lakhimpur	5752	3280	57.02
Lalitpur	8621	3187	36.97
Muzaffarnagar	5975	4701	78.68
Total	**5536**	**3625**	**65.48**

VI.16 AGGREGATE SIZE OF THE RURAL CREDIT MARKET

We can have a rough idea of total rural credit market in Uttar Pradesh on the basis of our estimates of per household borrowing in 1997-98. There were 180.2 lakh rural households in U.P. as per 1991 Census. Taking the growth rate in the number of rural households observed between 1981-91, we may put the present number of rural households at around 200.0 lakhs. Multiplying this number by average borrowing per sample household total size of rural credit market in U.P. may be put at Rs.7249 crore, out of which roughly Rs.5106 crore were provided

by the formal institutions and roughly Rs.2143 crore by informal credit market. This would suggest that the total size of the informal credit market is fairly large in U.P. Against the credit availability of Rs.7249 crore, the credit requirement for the state may be put at Rs.11,078 crore (Table 6.30). Thus, there is a substantial gap between rural credit demand and supply in the state. The institutional sources are able to meet less than half of the credit demand.

Table 6.30: Aggregate Estimated Rural Credit Demand and Supply in Uttar Pradesh, 1997-98

(Rs. Crores)

Credit Source	Credit Actually Availed	Credit Reqirement	Credit Requirement and Availed Gap
Formal Sector	5106	7755	2649
Informal Sector	2143	3323	1180
TOTAL	7249	11078	3829

VI.17 CONCLUSION

We may briefly summarise the findings of this chapter. Nearly 75 per cent of our sample households have reported being indebted, average outstanding loans amounting to Rs.6223 per reporting household and Rs.4649 per sample households. Average outstanding debt amounted to 16.43 per cent of average household income and only 1.39 per cent of the average value of household assets. The incidence of indebtedness was found to be higher among the poorer households.

The study revealed that institutional credit is now meeting around three-fourth of total rural credit. However, the access to institutional credit remains highly inequitous. The share of institutional loans in total loans was found to be positively related to the economic status of the household. The richest households were able to meet their total credit requirement from the institutional sources, while the poorest households had to depend almost wholly on the informal credit market.

Informal sector accounted for a little above one-fourth of total outstanding debt. The non-cultivating households depended upon the informal credit market to a greater extent as compared to the cultivating households. Among the cultivating households the dependence of the marginal households on informal credit market was much greater as compared to other cultivating households. Thus, the informal credit market plays an important role in meeting the credit requirement of the weaker sections of the rural society.

Among the informal sources of credit the agricultural moneylender has emerged as the chief player accounting for over one-third of informal sector credit followed by friends/relatives and traders. The role of professional moneylenders and landlords was found to be relatively unimportant.

Small borrowers predominate the rural credit market specially so in the case of the informal sector. In case of over four-fifths of the borrowers from the informal sources loan amount was less than Rs.3000. The rural credit market is also dominated by short period transactions in bulk of cases duration of loan being less than 6 months.

The most quoted interest rates in the informal sector in the study area were 3 or 5 per cent a month, though some cases of interest rate of 10 per cent a month were also found. An inverse

relation between rate of interest paid and the economic status of the borrower was also observed. It is generally the economically weaker sections which are forced to borrow from the informal credit market at very high nominal rates of interest. To some extent this reflects the higher risk premium as in most cases these sections had obtained loans on the basis of personal security not backed by valuable assets. The rural moneylender, who in most cases is a large cultivator residing in the same village, is able to overcome the problem of screening faced by the institutional moneylender and is also able to use the instrument of unsecured credit to ensure supply of farm labour at the needed time in future.

The informal credit market is primarily meeting the current consumption and social expenditure requirement of the rural population. Around three-fourths of loans from the informal sector are used for non-productive purposes. Religious and social ceremonies account for nearly one-third of total informal credit while consumption expenditure and construction/repair of house account for about one-fourth of such loans each.

A little less than 80 per cent of the sample households expressed a need of credit. The average credit requirement per sample household was Rs.5536 against the actual borrowing of Rs.3625, which suggests a significant gap between credit demand and supply.

On the basis of our estimate of current borrowing per household the total size of rural credit market may be put at Rs.7250 crore, out of which Rs.5100 crore were provided by the formal sector and Rs.2100 crore by the informal sector. Thus, one can conclude that the total size of the credit market in Uttar Pradesh is fairly large even if its relative role is declining.

CHAPTER VII

RURAL MONEYLENDERS: THE SUPPLY SIDE

VII.1 INTRODUCTION

In this chapter we propose to focus on the characteristics of the rural moneylenders including their parental background, economic status, area of operation, money lending costs, interest charged, scale of lending, sources of funds, etc. The discussion is based upon the information obtained from 90 rural moneylenders operating in the study area with the help of a structured questionnaire. It was found that only 44, i.e. a little less than half of the 90 moneylenders interviewed, were formally registered under the Money Lending Regulation Act, while others were carrying out their business without formal registration.

VII.2 RELIGION AND CASTE

The moneylenders predominantly belonged to the upper caste Hindu families except in Azamgarh district where a good number of rich farmers of backward castes were carrying out the money lending business (Table VII.1). Also in this district, which has a concentration of Muslim artisans working in handloom industry, a few Muslim moneylenders were also operating. In Lalitpur district one scheduled caste farmer with a large holding was also engaged in money lending operations.

Table 7.1 : **Distribution of Moneylenders by Caste**

(Nos.)

District	Higher Caste	Backward Caste	Scheduled Caste	Total
Almora	14 (93.33)	1 (6.67)	--	15 (100.00)
Azamgarh	5 (25.00)	15 (75.00)*	--	20 (100.00)
Lakhimpur	14 (70.00)	5 (25.00)	1 (5.00)	20 (100.00)
Lalitpur	13 (65.00)	7 (35.00)	--	20 (100.00)
Muzaffarnagar	15 (100.00)	--	--	15 (100.00)
Total	**61 (67.78)**	**28 (31.11)**	**1 (1.11)**	**90 (100.00)**

Note : * Includes 3 Muslims
Figures in brackets show percentages.

VII.3 AGE PROFILE

Over two-thirds of the moneylenders belonged to the middle age group (36 to 55 years), while around one-fifth were old (above 55 years) and only one-tenth belonged to the young age group (Table 7.2). The average age of the respondents was 47 years. Most of the respondents were engaged in the business of money lending for a fairly long time, that is, more than 15 years (Table 7.3).

Table 7.2 : Distribution of Moneylenders by Age-Groups

(Nos.)

District	Age Group (Years)			Total	Average Age
	Above 35	36-55	56+		
Almora	3 (20.00)	10 (66.67)	2 (13.33)	15 (100.00)	42
Azamgarh	2 (10.00)	15 (75.00)	3 (15.00)	20 (100.00)	49
Lakhimpur	1 (5.00)	12 (60.00)	7 (35.00)	20 (100.00)	51
Lalitpur	4 (20.00)	14 (70.00)	2 (10.00)	20 (100.00)	46
Muzaffarnagar	--	12 (80.00)	3 (20.00)	15 (100.00)	48
Total	**10 (11.11)**	**63 (70.00)**	**17 (18.89)**	**90 (100.00)**	**47**

Note : ***Figures in brackets show percentages.***

Table 7.3 : Distribution of Moneylenders by the Duration of Money Lending Business (in Years)

(Nos.)

District	Upto 5	5-10	10-15	15-20	20+	Total
Almora	--	9 (60.00)	1 (6.67)	3 (20.00)	2 (13.33)	15 (100.00)
Azamgarh	--	6 (30.00)	3 (15.00)	2 (10.00)	9 (45.00)	20 (100.00)
Lakhimpur	--	4 (20.00)	5 (25.00)	3 (15.00)	8 (40.00)	20 (100.00)
Lalitpur	--	3 (15.00)	7 (35.00)	5 (25.00)	5 (25.00)	20 (100.00)
Muzaffarnagar	1 (6.67)	1 (6.67)	5 (33.33)	--	--	15 (100.00)
Total	**1 (1.11)**	**23 (25.56)**	**21 (23.33)**	**13 (14.44)**	**32 (35.56)**	**90 (100.00)**

Note : ***Figures in brackets show percentages.***

VII.4 OCCUPATIONAL BACKGROUND

Majority of our respondents reported farming as their main occupation followed by shop keeping or business (Table 7.4). A few were engaged in service. Interestingly a very small proportion (7.78 per cent) reported money lending as their primary occupation. It thus looks that the rural rich with surplus cash are engaged in money lending as a side activity, the large farmers being the major players in the rural informal credit market. However, two-thirds of the respondents reported that their parents were also engaged in money lending as a secondary occupation.

Table 7.4 : Distribution of Moneylenders by Primary Occupation

(Nos.)

District	Money Lending	Shop Keeper/ Business	Farming	Service	Total
Almora	1 (6.67)	5 (33.33)	6 (40.00)	3 (20.00)	15 (100.00)
Azamgarh	2 (10.00)	9 (45.00)	8 (40.00)	1 (5.00)	20 (100.00)
Lakhimpur	2 (10.00)	8 (40.00)	10 (50.00)	--	20 (100.00)
Lalitpur	1 (5.00)	7 (35.00)	10 (50.00)	2 (10.00)	20 (100.00)
Muzaffarnagar	1 (6.67)	6 (40.00)	8 (53.33)	--	15 (100.00)
Total	**7 (7.78)**	**35 (38.89)**	**42 (46.66)**	**6 (6.67)**	**90 (100.00)**

Note : ***Figures in brackets show percentages.***

VII.5 HOUSEHOLD ASSETS

Money lending households came from a fairly wealthy background. The average value of assets owned by our sample households was Rs.7.98 lakh out of which Rs.7.35 lakh (92.03 per cent) was in the form of physical assets and Rs.0.64 lakh in the form of financial assets (Table

7.5). There were, however, considerable inter-district variations in the value of household assets owned by the moneylenders from a low of Rs.3.86 lakh in Almora to a high of Rs.16 lakh in Muzaffarnagar.

Table 7.5 : **Value of Physical and Financial Assets per Household**

(in Rs.)

District	Financial Assets	Physical Assets	Total Assets
Almora	64333 (16.69)	321202 (83.31)	385535 (100.00)
Azamgarh	44853 (8.02)	5145721 (91.98)	559425 (100.00)
Lakhimpur	60625 (6.91)	816281 (93.09)	876906 (100.00)
Lalitpur	48813 (7.32)	618091 (92.68)	666904 (100.00)
Muzaffarnagar	112100 (7.00)	1488540 (93.00)	1600640 (100.00)
Total	**63692 (7.98)**	**734722 (92.02)**	**798414 (100.00)**

Note : ***Figures in brackets show percentages.***

Details of the value of physical assets owned by the money lending households have been shown in Table 7.6. Land constitutes nearly two-fifths of the value of physical assets and buildings for around one-third. Agricultural implements and transport equipment are other important items among physical assets owned by the money lending households accounting for about one-sixth of total physical assets. Durable household goods account for a little over one-tenth of total physical assets.

Table 7.6 : Value of Physical Assets per Sample Household

(in Rs.)

Type of Assets	Almora	Azamgarh	Lakhim-pur	Lalitpur	Muzaffar-nagar	Total
Land	86250 (26.85)	160500 (31.19)	299500 (36.69)	138305 (22.38)	858667 (57.69)	290443 (39.53)
Buildings	101067 (31.47)	222500 (43.24)	243400 (29.82)	279000 (45.14)	365800 (24.57)	243344 (33.12)
Livestock	9087 (2.83)	11618 (2.26)	5684 (0.70)	13640 (2.21)	12140 (0.82)	10414 (1.42)
Agricultural Implements and Machinery	447 (0.14)	44190 (8.59)	58754 (7.20)	76398 (12.36)	86900 (5.84)	54411 (7.41)
Transport Equipment	39133 (12.18)	28334 (5.51)	72633 (8.90)	36713 (5.94)	45913 (3.08)	44770 (6.09)
Non-Farm Business Equipment	5400 (1.68)	6215 (1.21)	10725 (1.31)	2835 (0.46)	3567 (0.24)	5889 (0.80)
Durable Household Assets	79818 (24.85)	41215 (8.01)	125585 (15.39)	71200 (11.52)	115553 (7.76)	85451 (11.63)
Total Physical Assets	**321202 (100.00)**	**514572 (100.00)**	**816291 (100.00)**	**618091 (100.00)**	**1488540 (100.00)**	**734722 (100.00)**

Note : ***Figures in brackets show percentages.***

The average value of financial asset per household is reported at Rs.63,692. Significantly 44.09 per cent of the financial assets were in the form of bank deposits and another 28.09 per cent in the form of NSC or Post Office deposits (Table7.7). Around one-tenth of financial assets are held in the form of cash in hand. An insignificant amount is held in the form of deposits with companies or as shares or debentures.

Ownership of different types of physical and financial assets by money lending households has been shown in Table 7.8. Over half of the respondents owned a milch animal, while over one-fourth of them owned draft animal, tractors, tube-wells and pump sets. Ownership of two wheelers was reported by about two-thirds of the respondents, while about

one-tenth owned a car or a jeep. All except 5 of the 90 respondents reported ownership of a TV set, while a good number also owned refrigerator and washing machine indicating a fairly prosperous economic status of the money lending households.

Table 7.7 : Financial Assets Owned per Sample Household

(in Rs.)

Type of Assets	Almora	Azamgarh	Lakhim-pur	Lalitpur	Muzaffar-nagar	Total
NSC	14000 (21.76)	4200 (9.36)	11400 (18.80)	5700 (11.68)	16533 (14.75)	9822 (15.42)
Post Office Deposits	9233 (14.35)	7700 (17.17)	3800 (6.27)	7450 (15.26)	13933 (12.42)	8072 (12.67)
Deposits in Banks	25000 (38.86)	24850 (55.40)	22975 (37.90)	22750 (46.61)	49400 (44.07)	28083 (44.09)
Deposits in Companies	--	1475 (3.29)	1000 (1.65)	2000 (4.10)	--	994 (1.56)
Shares & Debentures	--	--	5500 (9.07)	750 (1.54)	1667 (1.49)	1667 (2.62)
Dues Receivable	9400 (14.61)	1125 (2.51)	4550 (7.51)	.4400 (9.01)	21667 (19.33)	7417 (11.65)
Cash in Hand	4667 (7.26)	5053 (11.27)	10560 (17.42)	4138 (8.47)	7867 (7.02)	6478 (10.17)
Other Items	2033 (3.16)	450 (1.00)	840 (1.38)	1625 (3.33)	1033 (0.92)	1159 (1.82)
Total	**64333 (100.00)**	**44853 (100.00)**	**60625 (100.00)**	**48813 (100.00)**	**112100 (100.00)**	**63692 (100.00)**

Note : ***Figures in brackets show percentages.***

Table 7.8: **Households Reporting Ownership of Different Assets**

(Per Cent)

Type of Assets	Almora	Azam-garh	Lakhi mpur	Lalitpur	Muzaffar Nagar	Total
Livestock						
Draft Animal	60.00	25.00	15.00	20.00	33.33	28.89
Milch Animal	66.67	55.00	45.00	50.00	47.67	52.22
Agricultural Machinery						
Tractor	--	15.00	25.00	40.00	47.67	25.55
Tubewell	--	35.00	40.00	25.00	53.33	31.11
Pumpset	--	25.00	30.00	45.00	26.67	26.67
Thresher	--	--	10.00	25.00	26.67	12.22
Cane Crusher	--	--	5.00	--	--	1.11
Harvester	--	5.00	--	10.00	6.67	4.44
Transport Equipment						
Car/Jeep	13.33	--	20.00	10.00	13.33	11.11
Motor Cycle/Scooter	40.00	55.00	60.00	85.00	86.67	65.56
Bullock Cart	--	15.00	30.00	10.00	13.33	14.44
Durable Household Assets						
TV	100.00	85.00	95.00	95.00	100.00	94.44
Refrigerator	33.33	45.00	40.00	25.00	66.67	41.11
Washing Machine	40.00	20.00	25.00	20.00	53.33	30.00
Financial Assets						
NSC	53.33	20.00	55.00	35.00	53.33	42.22
Post Office Deposits	60.00	50.00	40.00	55.00	73.33	54.44
Deposits in Bank	100.00	100.00	100.00	90.00	100.;00	97.78
Deposits in Companies	--	15.00	10.00	15.00	--	8.89
Shares and Debentures	--	--	20.00	10.00	6.67	7.78

All the respondents barring two had a bank account while nearly half reported having NSC and Post Office deposits. However, less than one-tenth of the respondents reported having deposits in companies or owing shares and debentures.

As reported earlier cultivation was mentioned as the primary occupation by the money-lenders interviewed by us and the value of land constitutes the most important item of physical assets in value terms. Table 7.9 gives further details of land ownership by the respondents. A little above half of the households in our sample reported ownership of land, the average size of land holding being 6.65 acres. In Muzaffarnagar the size of holding was found to be much larger as compared to other districts. In a majority of cases (i.e. nearly 90 per cent households) average land holding was below 10 acres.

Table 7.9 : Number of Households Reporting Ownership of Land and Average Size of Land Holding

Districts	No. of Households Reporting Ownership of Land	Average Land Holding Size (Acres)
Almora	9 (60.00)	3.04
Azamgarh	10 (50.00)	6.16
Lakhimpur	10 (50.00)	7.90
Lalitpur	11 (55.00)	5.27
Muzaffarnagar	8 (53.33)	11.63
Total	**48 (53.33)**	**6.65**

Note : ***Figures in brackets show percentages***

VII.6 ANNUAL HOUSEHOLD INCOME

Source-wise annual income of the money-lending households interviewed by us has been shown in Table 7.10. The average household income was reported at Rs.81,250 varying from Rs.57,539 in Almora to Rs.1,00,456 in Muzaffarnagar district. Income from money-lending alone was reported at Rs.21,070 constituting a little less than one-fourth of household income. In fact the most important source of income was business which contributed around one-third of household income. Cultivation contributed around 28 per cent of household income and animal husbandry another 6.0 per cent. Remaining 10 per cent of income was contributed by miscellaneous sources like service, leasing out of land and machinery, remittances, etc. Thus, money-lending activity is being carried out mainly by the relatively prosperous rural households with surplus income, who were mainly engaged in cultivation or business activities.

Table 7.10: Per Household Annual Income by Source (In Rs.)

Income Source	**Almora**	**Azam-garh**	**Lakhim pur**	**Lalitpur**	**Muzaffar Nagar**	**Total**
Net Income from Money-lending	15277 (26.55)	20777 (27.43)	19768 (24.93)	23023 (24.98)	26386 (26.28)	21070 (25.93)
Cultivation	8867 (15.41)	16787 (22.17)	23175 (29.23)	30826 (33.45)	33641 (33.50)	22815 (28.08)
Animal Husbandry	3527 (6.13)	7105 (9.38)	2941 (3.71)	5219 (5.67)	6153 (6.13)	5006 (6.16)
Leasing out of land	--	990 (1.31)	1558 (1.97)	1035 (1.12)	680 (0.68)	909 (1.12)
Net Income from Business	20268 (35.22)	24600 (32.48)	26639 (33.60)	24300 (26.37)	31333 (31.21)	25387 (31.25)
Service	9200 (15.99)	1200 (1.58)	--	5200 (5.64)	1680 (1.67)	3236 (3.98)
Remittance	400 (0.70)	--	--	300 (0.33)	--	133 (0.16)
Others	--	4275 (5.65)	5200 (6.56)	2250 (2.44)	533 (0.53)	2694 (3.32)
Total Household Income	**57539 (100.0)**	**75734 (100.0)**	**79281 (100.0)**	**92153 (100.0)**	**100406 (100.0)**	**81250 (100.0)**

Note : ***Figures in brackets show percentages***

It appears that the informal rural credit market is performing the task of intermediation between the cash surplus and cash deficit households in the localized economy.

VII.7 VOLUME OF LENDING AND AREA OF OPERATION

Average volume of lending per moneylender was reported at Rs.53,811 ranging from Rs.40,733 in Almora to Rs.74,867 in Muzaffarnagar. The distribution of respondents by volume of lending is shown in Table 7.11. In one-third of cases the volume of lending was fairly modest being below Rs.25,000. In another 26.67 per cent cases volume of lending ranged between Rs.25,000 and Rs.50,000. In around 29 per cent cases volume of lending was in the range of Rs.50,000 and Rs.1,00,000 and in around one-tenth cases it exceeded Rs.1,00,000 per year.

Table 7.11 : Distribution of Respondents by Volume of Lending in the Last Year

(Nos.)

District	Volume of Lending (Rs.)						Average Volume of Lending (Rs.)
	Upto 10000	10000-25000	25000-50000	50000-100000	100000 and above	Total	
Almora	4 (26.67)	4 (26.67)	2 (13.33)	5 (33.33)	--	15 (100.00)	40733
Azamgarh	--	6 (30.00)	6 (30.00)	5 (25.00)	3 (15.00)	20 (100.00)	53700
Lakhimpur	3 (15.00)	5 (25.00)	5 (25.00)	4 (20.00)	3 (15.00)	20 (100.00)	53400
Lalitpur	1 (5.00)	4 (20.00)	6 (30.00)	9 (45.00)	--	20 (100.00)	48350
Muzaffarnagar	--	3 (20.00)	5 (33.33)	3 (20.00)	4 (26.67)	15 (100.00)	74867
Total	**8 (8.89)**	**22 (24.44)**	**24 (26.67)**	**26 (28.89)**	**10 (11.11)**	**90 (100.00)**	**53811**

Note : ***Figures in brackets show percentages***

A modest increase in volume of business over the last decade was reported by the respondents on the whole. However, respondents in Almora and Lakhimpur districts reported a decline in business over the last decade (Table 7.12).

Table 7.12 : **Trends in Average Volume of Lending Per Respondent Over Time**

District	Average Volume of Lending (Rs.)		
	Last Year	**Five Year Ago**	**Ten Year Ago**
Almora	40733	48540	50200
Azamgarh	53700	52800	42000
Lakhimpur	53400	58800	59400
Lalitpur	48350	48625	42150
Muzaffarnagar	74867	66933	54033
Total	**53811**	**47570**	**49272**

A fairly high number of moneylenders interviewed by us felt that their business has been affected by the growth of banking facilities and cooperative credit (Table 7.13). Greater competition from other moneylenders and decline in demand for credit were mentioned as other important reasons affecting money lending business.

It was found that the rural moneylenders are meeting the credit needs of their clients spread over several villages. In over two-fifth cases the area of operation extended over ten villages and in over one-fifth cases it spread over 5 to 10 villages (Table 7.14). Around one-tenth of the moneylenders were operating on a small scale covering 1 to 3 villages. In majority of cases, however, the area of operation was confined to the same district, though about one-tenth respondents reported operating in 2-3 districts.

Table 7.13 : Distribution of Respondents Reporting Decline in Business by Reason

(Nos.)

Reasons of Decline in Business	Almora	Azam-garh	Lakhim pur	Lalitpur	Muzaffar Nagar	Total
Competition from Moneylenders	5 (33.33)	8 (40.00)	6 (30.00)	7 (35.00)	5 (33.33)	31 (34.44)
Competition from Cooperatives	7 (46.67)	7 (35.00)	8 (40.00)	6 (30.00)	6 (40.00)	34 (37.77)
Growth of Banking Facilities	11 (73.33)	9 (45.00)	10 (50.00)	10 (50.00)	3 (20.00)	43 (47.77)
Decline in demand by customers due to their improved economic condition	10 (66.67)	9 (45.00)	6 (30.00)	9 (45.00)	3 (20.00)	37 (41.11

Note : ***Figures in brackets show percentages to total respondents***

Table 7.14 : Distribution of Money Lending Households by Area of Operation

Area of Operation	Almora	Azam-garh	Lakhim pur	Lalitpur	Muzaffar Nagar	Total
1 Village	-	1 (5.00)	-	-	-	1 (1.11)
2-3 Villages	1 (6.67)	4 (40.00)	1 (5.00)	2 (10.00)	1 (6.67)	9 (10.00)
3-5 Villages	5 (33.33)	1 (5.00)	3 (15.00)	9 (45.00)	3 (20.00)	21 (23.33)
5-10 Villages	3 (20.00)	3 (15.00)	6 (30.00)	2 (10.00)	6 (40.00)	20 (22.22)
10+ Villages	6 (40.00)	11 (55.00)	10 (50.00)	7 (35.00)	5 (33.33)	39 (43.34)
Total	15 (100.0)	20 (100.0)	20 (100.0)	20 (100.0)	15 (100.0)	90 (100.0)

Note : ***Figures in brackets show percentages***

Over three-fourths of the moneylenders interviewed reported that they have been diverting their funds into other forms of investment. Deposit in banks was the most favoured form of investment followed by purchase of NSCs. A small number reported investing in shares, bonds or deposits with the private companies. Thus, there is a preference for the safe and assured earning assets like bank deposits and NSCs. Money lending is seen as a way of earning a higher level of return though carrying a higher degree of botheration and risk. In fact, nearly one-fourth of the moneylenders interviewed by us affirmed that their sons would not be interested in carrying on the business of money lending.

Table 7.15: Loans Outstanding by Size of Loan by Money Lending Households

Amount (Rs.)	Almora	Azam-garh	Lakhim pur	Lalitpur	Muzaffar Nagar	Total
Upto 1000	177 (50.00)	380 (54.21)	314 (49.84)	331 (57.37)	546 (72.13)	1748 (57.90)
1000-3000	114 (32.20)	246 (35.38)	220 (34.92)	174 (30.16)	164 (21.66)	918 (30.41)
3000-5000	57 (16.10)	70 (9.98)	85 (13.49)	58 (10.05)	46 (6.08)	316 (10.47)
5000-10000	6 (1.69)	5 (0.71)	11 (1.75)	13 (2.25)	1 (0.13)	36 (1.19)
10000-25000	--	--	--	1 (0.17)	--	1 (0.03)
Total	**354 (100.0)**	**701 (100.0)**	**630 (100.0)**	**577 (100.0)**	**757 (100.0)**	**3019 (100.0)**
No. of Loans Given per Respondent	**23.60**	**35.05**	**31.50**	**28.85**	**50.60**	**33.54**
Average Amount of Loan (Rs.)	**1726**	**1532**	**1595**	**1676**	**1480**	**1604**

Note : ***Figures in brackets show percentages***

On an average one moneylender have 34 outstanding loans, though the number varied from 24 in Almora to 51 in Muzaffarnagar. Average amount of loan given amounted to Rs.1604 only. Most of the loans advanced are for a small amount. Thus, nearly 58 per cent of the loans advanced by the moneylenders were below Rs.1000 and another 30 per cent were in the range of 1 to 3 thousand. Around one-tenth of total loans advanced were in the range of 3 to 5 thousand. There were few cases of loans exceeding 5 thousand (Table 7.15).

Two-thirds of the loans advanced by the moneylenders were outstanding for 1 year and another 30 per cent were outstanding for 1 to 2 years. Only 3.49 per cent of loans were outstanding for a period over 2 years.

VII.8 SOURCES OF FUNDS

Sources of funds utilized by the moneylenders have been shown in Table 7.16. Basically the moneylenders are using their own funds for carrying out the money lending business. Thus, own funds accounted for as much as 86.45 per cent of total funds deployed. Around 8 per cent of the funds were contributed by the relatives and friends, which are generally obtained without interest. In such cases generally the friends and relatives are using the services of the experienced moneylenders as an intermediary to lend their surplus cash. In some cases the moneylenders had borrowed money from other moneylenders. Average interest paid on such borrowings was reported at 20 per cent. Around 3 per cent of the funds deployed by the moneylenders were obtained from the institutional sources. Only 5 out of the 90 moneylenders interviewed reported borrowing from commercial banks for the purpose of re-lending. All of them belonged to the urban areas.

Thus, it appears that the linkages between the informal and formal market are extremely weak and only a small fraction of money deployed in the informal credit market is obtained from the formal credit market.

Table 7.16 : Sources of Funds for Lending

(Amount in Rs. Lakh)

Sources of Funds	Almora	Azam-garh	Lakhim pur	Lalitpur	Muzaffar Nagar	Total
Own Funds	6.11 (100.00)	9.89 (92.09)	8.10 (75.84)	7.74 (80.04)	10.03 (89.31)	41.87 (86.45)
Funds from Relatives and Friends	--	0.50 (4.66)	1.50 (14.06)	0.95 (9.82)	0.95 (8.46)	3.90 (8.05)
Borrowing from Money-lenders	--	--	0.38 (3.55)	0.78 (8.07)	--	1.16 (2.40)
Loans from Banks & Cooperatives	--	0.35 (3.25)	0.70 (6.55)	0.20 (2.07)	0.25 (2.23)	1.50 (3.10)
Total Funds	**6.11 (100.00)**	**10.74 (100.00)**	**10.68 (100.00)**	**9.67 (100.00)**	**11.23 (100.00)**	**48.43 (100.00)**

Note : ***Figures in brackets show percentages***

VII.9 INTEREST CHARGED

Per cent distribution of loan amount by annual rate of interest charged has been shown in Table 7.17. Interest rates charged varied from 24 per cent to 120 per cent per year. However, the most commonly charged interest rate was 36 per cent per year, at which nearly three-fourths of the loans were advanced. About one-tenth of the loans were advanced at the rate of 48 per cent and another one-tenth at the rate of 60 per cent. In a few cases even higher rates of interest was charged, though such loans accounted for barely 3.6 per cent of total loans. Most of these cases of high interest were found in Lalitpur district. This district falls in the backward

unirrigated southern plateau and has a high concentration of agricultural labourers. Among the other four districts the pattern of interest rates charged did not show much of a difference.

Table 7.17: Per Cent Distribution of Total Loan Amount by Rate of Interest

Annual Rate of Interest	Almora	Azam-garh	Lakhim pur	Lalitpur	Muzaffar Nagar	Total
24%	--	0.93	0.21	-	2.67	3.08
36%	90.02	78.40	65.45	50.88	84.24	72.87
48%	2.45	6.52	16.95	13.75	8.46	10.20
60%	6.38	11.82	7.02	22.03	3.74	10.24
72%	--	--	--	3.62	--	0.72
84%	--	2.33	--	3.62	--	1.24
96%	--	--	--	3.63	--	0.72
120%	1.15	--	0.37	2.48	0.89	0.93
Total	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**	**100.00**

About two-thirds of the moneylenders reported that they charge the same rate of interest from their clients. However, one-third moneylenders reported charging different interest rates from different groups of borrowers. We also tried to probe the reasons for charging differential interest rates. The responses by reasons for charging higher interest rates have been shown in Table 7.18.

Table 7.18: **Distribution of Respondents by Reasons for Charging Higher Interest Rate**

Reasons for Charging Higher Interest Rates	Number	Per Cent of Total Respondents
Better Economic Position	15	16.67
Person not personally known	13	14.44
Past repayment record not good	8	8.89
Loan for medical purposes	12	13.33
Loan for marriage & social ceremonies	7	7.78
Loan for productive purpose	8	8.89
Short period of loan	11	12.22
Urgency of borrower	9	10.00
Borrower Resides outside the village	6	6.67
Nature of security offered	13	14.44

Interest rates are affected by personal characteristics of the borrowers as well as nature of credit required. It was reported by some moneylenders that they charge higher interest rates from better off clients as well as those who are not personally known or their past repayment record is not good. Purpose of loan also affected the rate of interest charged. Higher rates of interest were charged in case of loans for medical or social purpose or when the loan was urgently needed. Some charged higher interest on short period loans. Nature of security provided also affected the rate of interest charged. Lower interest was reported in case of liquid collateral like jewellery.

Thus, the interest charged reflects the relative bargaining position of the creditor and the borrower. The moneylender takes advantage of the situation where urgency of the borrower is high and credit demand cannot be postponed as in case of medical treatment and social ceremonies. The moneylender also keeps in mind the economic status of the borrower and the expected returns from the loans. In other cases, higher interest rates may reflect the greater transaction costs or risks faced by the moneylender.

VII.10 MODE OF BUSINESS

The salient features of the modus operandi of the moneylenders observed by us through discussions with them are briefly summarized below. The rural moneylenders are mainly catering to the credit needs of agriculturists, rural landless labour and rural artisans. In a limited number of cases loans to businessmen or traders are also given. Majority of moneylenders are giving loans for both production and consumption purposes. The moneylenders reported that they generally give loans to persons directly known to them or to persons introduced by known persons. Rarely a loan is given to any unknown person.

Since the rural moneylenders are operating in a localized area and dealing with persons known to them this obviates the need of obtaining collateral and follow cumbersome legal procedures. Nearly 60 per cent moneylenders reported that they give loans on personal security, while in about one-third cases third party security was regarded as sufficient. In a limited number of cases some collateral security was also insisted upon. Jewellery was the most preferred form of security, though in some cases, land, animals, utensils or other assets were also accepted as collateral. Generally, it is the professional moneylenders, who are advancing loans against collaterals.

In a majority of cases loan is advanced on the basis of oral agreement, while in about one-third cases written agreement on a simple piece of paper is made. Legal mortgage was insisted only in less than one-tenth of the cases possibly where loan amount was large.

One of the reasons of the survival of the informal rural credit is the low transaction cost both for the lender and the creditor. In majority of cases the transaction is completed within half an hour or at the most within one-hour. Generally no deductions or service charges are made at

the time of making the loan. However, a couple of moneylenders in Azamgarh and Lakhimpur villages reported making a deduction of upto 5 per cent of the loan amount while advancing the loans. In most of the cases the loan is advanced in a single instalment. However, in about one-fourth of the cases loans are advanced in two or more instalments.

A flexible schedule of repayment is maintained and the borrower is expected to repay the loan according to his convenience. Only one-tenth of the moneylenders reported insistence on fixed monthly instalments for loan repayment. In most of the cases the borrowers come on their own to the doors of the moneylenders for making repayment. In one-third cases the moneylenders reported making personal visits for realization of loans. Only one in four moneylenders had used the services of an agent or regular employee to realize loan repayment.

Nearly 80 per cent moneylenders interviewed reported that they remain satisfied if the interest due on loans is paid regularly. Around the same proportion of moneylenders reported that they do not have to employ any coercive method to realize loan repayment. Only one-fifth of the moneylenders interviewed reported the need for resorting to coercive method for realization of loans. Again only 10 moneylenders (11.11 per cent of the sample) reported that they had to confiscate the collateral for non-payment of loans. In 7 of these cases the collateral involved was in the form of jewellery, in 2 cases animals and in 1 case utensils. Significantly nobody reported confiscating land of the borrower for default of payment.

VII.11 LOANING IN KIND

Only 37 (i.e. around 40 per cent) of the 90 moneylenders interviewed informed us that they sometimes give loans in kind. On an average one moneylender had given two loans in kind. Around 1.2 quintal of foodgrains was advanced per borrower, who had asked for loans in kind.

In general, the borrower taking loans in kind is expected to return one and a half time of the foodgrains borrowed after the crop season. However, now the practice of repayment in cash even for loans taken in kind has become quite common.

The details of loan transactions in kind have been given in Table 7.19. The annualized rate of return on loans in kind works out to roughly 90 per cent and does not show much variation across districts. This conforms to the practice of *dyodha* (one and a half times) to be paid after the crop season. Thus, the returns on kind loans are higher than the nominal interest charged on cash loans. However, the practice of borrowing in kind has declined over time reflecting the betterment in the income and employment levels of the poor people.

Table 7.19: <u>Loan Transactions in Kind</u>

Item	Almora	Azam-garh	Lakhim pur	Lalitpur	Muzaffar Nagar	Total
1. No. of Persons given loans	7	21	20	13	10	71
2. Amount of kind Loans in Qtls.	6	25	24	17	13	85
3. Total Value of Loan (Rs.)	2100	11250	10800	7650	5850	37650
4. <u>Amount of Repayment Received:</u>						
(a) in Cash (Rs.)	2940	12654	12852	6851	7371	42668
(b) in Kind (Qtls)	--	9.0	5.4	9.75	1.95	26.10
(c) Value of payment made in kind (Rs.)	--	4050	2430	4388	878	11746
(d) Total Amount Repaid	2940	16704	15282	11239	8249	54414
5. Return on Loan (Rs.)	840	5454	4482	3589	2399	16764
6. Annualized Rate of Return (%)	80	97	83	94	82	89

Note: 1. The value of kind loan and repayment in kind has been estimated at the average market rate of Rs.350 per quintal in Almora and Rs.450 per quintal in other districts.

2. Annualized rate of return has been calculated by assuming that repayment has been made within six months of loan.

VII.12 ANNUAL BUSINESS EXPENSES

Information was elicited from the moneylenders on their annual business expenses connected with the work of money lending. We have worked out the business expenses of the urban based and rural based moneylenders separately as the establishment costs in the case of the former are likely to be higher. The urban based moneylenders were generally carrying on the business of money lending along with other business activity in most cases a jewellery shop. In many cases they had also employed a shop assistant, who was also helping in money lending business. In such cases we have allocated a part of expense on office upkeep and salary of employee towards money lending expenses in proportion to the time spent on money lending business to total time spent in shop.

Details of annual business expenses of moneylenders have been shown in Table 7.20. These expenses come to 2.58 per cent of total advances in case of urban based moneylenders and only 1.31 per cent of total advances in case of rural based moneylenders. It is in this area that the moneylender operating in the rural informal credit market has a clear competitive edge over the formal lending institutions.

Table 7.20 : Average Annual Business Expenses per Moneylender

(in Rs.)

Item of Expenditure	Urban Based Moneylenders	Rural Based Moneylenders	All Money-lenders
1. Rent and Maintenance of Office	540 (24.4)	37(11.5)	282 (22.6)
2. Salary of Employees	849(38.4)	--	415(33.3)
3. Stationery, Printing, etc.	264(11.9)	144(44.7)	203(16.3)
4. Legal Expenses	62(2.8)	28(8.7)	44(3.5)
5. Travelling Expenses	64(2.9)	54(16.8)	59(4.7)
6. Collection Expenses	113(5.1)	16(5.0)	64(5.1)
7. Interest on Borrowed Funds	321(14.5)	43(13.4)	179(14.4)
8. **Total Expenses**	**2213(100.0)**	**322(100.0)**	**1246(100.0)**
9. Total Expenses as % of Total Loans	**2.58**	**1.31**	**2.28**
10. Total Expenses as % of Interest Earned	**6.90**	**2.48**	**5.58**
11. Net Interest Earned as % of Loan Advanced	**34.81**	**51.34**	**38.63**

Note : Figures in brackets show percentages to total expenses

Taking into account the annual business expenses the net interest earning of moneylender in our sample comes to 38.6 per cent. Net interest earning was found to be higher in case of rural based moneylenders (51.34 per cent) as compared to urban based moneylenders (34.81per cent).

VII.13 BAD DEBTS

It is well known that the recovery rate of the rural moneylenders tends to be high because of their proximity and close touch with the borrowers generally living in the same or nearby villages. The possibility of default on the part of the poor borrower, who has to approach the moneylender frequently for his cash needs, is also limited. The position of dominance enjoyed by the moneylender, often a big landholders, in the rural community helps him in realizing his dues. As we have pointed out earlier only in rare cases the coercive power has to be actually exercised by the moneylenders to recover debts.

In our sample only one-sixth of the moneylenders reported cases of bad debts, which were generally 5 to 7 per cent of their total lending. On an average the bad debts amounted to Rs.1022 or less than 2 per cent of their average lending (Table 7.21). In Lalitput district the incidence of bad debts was somewhat higher. This may explain to some extent the prevalence of relatively higher interest rate in this district.

If we add the bad debts to business expenses the net interest earning in our sample would come down to 30.9 per cent of the total loan amount. Thus, rural money lending remains a financially very attractive business, without much attendant risks, far in excess of any secure financial instruments available in the market.

Table 7.21 : Details of Loss Due to Bad Debts

District	Moneylenders Reporting Bad Debts		Average Amount of Bad Debts Reported (Rs.)	Bad Debts as Per Cent of Total Loans Advanced
	Nos.	Per Cent		
Almora	1	6.67	33	0.08
Azamgarh	3	15.00	450	0.84
Lakhimpur	3	15.00	700	1.31
Lalitpur	6	30.00	2375	4.91
Muzaffarnagar	2	13.33	1400	1.87
Total	15	16.66	1022	1.90

VII.14 MONOPOLY ELEMENT IN INTEREST

Much discussion has centred around the issue of high interest rates in rural credit market and the presence of monopoly element (Bottomley 1963, 1964 and 1975; Chandavarkar, 1965; Bandyopadhyay, 1984; Ghatak, 1976). Following this discussion the interest rates can be seen as consisting of four elements, i.e. (a) the opportunity cost of lending money; (b) administrative cost of lending; (c) risk premium; and (d) monopoly profits.

We have estimated in previous sections the administrative cost of lending money and the default rate, both of which were found to be rather low. We can take the interest on long term deposits in post offices, which is locally available riskless opportunity for investing, as representing the opportunity cost of money, which is currently at 10 per cent. The gross interest earned by moneylenders has been estimated by us at 40.90 per cent and net interest earned at 36.63 per cent after taking into account the lending costs and default rate estimated at 2.28 per cent and 1.99 per cent of loan amount. After deducting 10 per cent as opportunity cost, the monopoly profit of the moneylender would come to 26.63 per cent. For the rural based moneylenders monopoly profits would be higher at 39.34 per cent and for the urban based moneylenders lower at 22.81 per cent.

The presence of institutional finance has not helped to bring down the interest rates in the rural money markets. The formal and informal sectors of the rural money market are not competing in providing loans as they are dealing with separate segments of the market. The rural moneylenders are basically purveyers of consumption loans, which are not provided by the institutional sources. In fact, the poorer sections also depend upon the informal sector even for productive loans as either institutional credit is not accessible to them or is not sufficient.

The element of competition, which may bring down the interest rates, is missing even among the rural moneylenders. The rural moneylenders are essentially operating in an oligopolistic market, with each oligopolist having control over a segment of the market. As we have seen earlier most of the borrowers are linked to the moneylender in a stable client-patron relationship due to a number of locational, social, personal or economic relationships. This makes it difficult for a borrower in the informal credit market to move freely from one moneylender to another even if they are operating in a close vicinity. Lack of collateral seems to be the basic constraining factor for this situation.

VII.15 PROBLEMS FACED BY MONEYLENDERS

Moneylenders were also asked questions about the problems they generally faced while carrying out their business. A large majority of them complained about harassment from government or income tax officials and wanted such harassment to end for smooth conduct of their business. They also suggested that the period of renewal of registration should be extended to 10 years and wanted that the restrictions put on limit of loan amount should be removed. The moneylenders in general also suffered from a feeling of insecurity as they had to keep large sums of cash at home to carry out their business. Around one-fourth of the moneylenders also referred to the problem of shortage of funds and suggested that banks should provide them loans to carry out their business.

VII.16 CONCLUSION

The main findings of the present chapter may be briefly summarized now. The profile of the 90 moneylenders interviewed by us reveals that they mostly belong to upper castes and are in

upper middle age bracket. They are in the money lending business for a fairly long time though it is not reported as their primary occupation. The rural rich with surplus cash are engaged in money lending as a secondary activity, the large farmers being the principal players in the rural informal credit market. Money lending households come from a fairly wealthy background with an average value of household assets including land of Rs.8 lakh. Average value of financial assets per household was reported at around Rs.64,000. The average annual household income of moneylenders was reported at Rs.81,250. Net income from money lending per household came to Rs.21,070 amounting to 25.9 per cent of annual household income.

Generally money lending is on a modest scale average volume of money lending being around Rs.54,000. A fairly high number of moneylenders felt that their business has been affected by the growth of banking facilities and cooperative credit. It was found that the moneylenders are meeting the credit needs of their clients spread over several villages. On an average one moneylender had 34 outstanding loans. Average amount of loan given per client was rather small at Rs.1604, being less than Rs.1000 in around 60 per cent cases. The duration of loans is also short. Nearly two-thirds of the loans outstanding were for a period upto 1 year.

Basically the moneylenders are using their own funds for carrying out the money lending business. Nearly 86 per cent of funds deployed were provided by the moneylenders themselves, 8 per cent funds were provided by friends and relatives, 2.4 per cent funds were borrowed from other moneylenders and around 3 per cent funds were borrowed from institutional sources.

Interest rate charged varied from 24 per cent to 120 per cent per year. However the most commonly charged interest rate was 36 per cent at which nearly three-fourths of the loans were advanced. Generally, moneylenders charge the same rates of interest from their clients. But one-third moneylenders reported charging different rates of interest from different group of borrowers

to take advantage of the situation where urgency of the borrower is high and credit demand cannot be postponed as in case of medical treatment and social ceremonies.

The moneylenders give loans mostly to persons directly known to them on personal security or on the basis of third party security. Only in a limited number of cases collateral security was insisted upon. Transaction costs are extremely low. In a majority of cases loan is advanced on the basis of oral agreement or written agreement on a simple piece of paper. The borrower is expected to repay the loan according to his conveneince.

Moneylenders sometime give loans in kind but the practice has declined considerably over time. The practice of repayment in cash even for loans taken in kind has become quite common.

Generally the moneylenders carried out their business on their own. The average annual business expenses of moneylenders amounted to 2.28 per cent of their total advances and 5.58 per cent of their interest income. Very few cases of repayment default were reported by the moneylenders. On an average the bad debts amounted to around 2 per cent of loans advanced.

The gross annual interest received by the moneylenders was estimated at 40.9 per cent of total loans, while net interest after taking into account business expenses and bad debts came to 36.7 per cent of loan amount. Thus, money lending remains a financially very attractive investment for rural rich with surplus cash, far in excess of any secure financial instrument available in the market.

To sum up, the rural informal credit market is performing the important task of intermediation between the cash surplus and cash deficit households in the localised economy. It provides a financially attractive and safe investment opportunity to the rural rich with cash

surplus on the one hand and provides speedy cash at low transaction cost to the rural poor in urgent need of liquidity without access to alternative sources of credit. The moneylender no doubt charges high interest for an essential service in the prevailing situation.

Our analysis reveals that there is a high degree of monopolist profit in the interest charged by the rural moneylenders. There is little competition between the formal and informal sectors of the credit market as they are dealing with different segments of the market. Even among the rural moneylenders the element of competition is largely absent. The rural moneylenders are essentially operating in an oligopolistic market, with each oligopolist controlling a segment of the market in a stable client-patron relationship.

CHAPTER VIII

TRANSACTION COSTS AND PERCEPTION OF BORROWERS ABOUT FORMAL CREDIT INSTITUTIONS

VIII.1 INTRODUCTION

In this chapter we have discussed the explicit and implicit transaction costs of borrowing from the formal credit institutions and the perception of respondents about the working of these institutions. The discussion also includes various types of problems faced by rural population in dealing with formal credit institutions. The suggestions of respondents to improve the working of these institutions are also highlighted. Finally, a brief reference is made to the role of the non-banking financial institutions working in the study area.

VIII.2 TRANSACTION COST IN FORMAL SECTOR

It is well known that transaction costs of borrowing are much higher in the formal sector as compared to the informal sector. We have tried to estimate various types of transaction costs of borrowing from the formal credit institutions on the basis of information supplied by the respondents. The main transaction cost a villager has to incur for obtaining loans from an institutional source is the loss of workdays on account of frequent visits to the lending agency to complete the formalities for securing loan. Generally it takes 4 to 5 visits spread over 1 to 2 weeks to get a loan from regional rural banks or a commercial bank (Table 8.1). Even in case of

cooperative institutions frequent visits are required and there is a lapse of several days in getting a loan. On an average more than 2 working days are lost in getting a loan from a cooperative society and over 3 days in case of banks. The financial cost of loss of working day has been worked out by multiplying the loss of working days with the prevalent wage rate for agricultural workers, taken at Rs.40 per day. In addition the borrower has to incur expense on travelling, food, etc. apart from various other legal and non-legal expenses.

Table 8.1 : Frequency of Visits to Lending Agencies and Loss of Workdays for Obtaining Loans

Lending Agency	Average Distance (Km.)	No. of Visits to Various Offices	Loss of Working Days	Time Gap in Getting Loans (in days)
Cooperative Societies	4.01	2.51	2.14	5.47
Cooperative Banks	3.83	2.33	2.58	6.88
Regional Rural Banks	4.62	4.24	3.24	12.39
Commercial Banks	5.29	4.41	3.54	9.21
All Formal Institutions	**4.17**	**2.82**	**2.41**	**6.55**

Details of transaction costs of borrowing from formal credit institutions are shown in Table 8.2. Total transaction costs per loan range from Rs.132.44 in case of cooperative societies to Rs.674.17 in case of commercial banks. However, as per cent of loan amount transaction cost are lower (1.63 per cent) in case of commercial banks as compared to cooperative societies (2.78 per cent). Transaction costs were found to be highest in case of regional rural banks (3.12 per cent).

The opportunity cost of loss of working days accounts for 43.26 per cent of total transaction cost of formal sector loans, while travel costs account for another 12.58 per cent of

transaction costs. Over one-third of transaction cost is incurred on giving bribes to official or their entertainment. This proportion is significantly much higher (around 60 per cent) in case of loans from banking institutions as compared to loans from cooperative institutions. The legal charges like fees for checking land records stamp duties, etc. are hardly 5 per cent of transaction costs of borrowing from the formal sector.

Table 8.2 : **Transaction Costs of Borrowing from Formal Sources Per Loan** (in Rs.)

Type of Cost	Co-operative Societies	Co-operative Bank/LDB	Regional Rural Bank	Commercial Bank	Total
Land Record Verification Fee	4.97	9.58	9.52	12.71	6.55
Inventory Verification Fee	0.39	3.75	2.38	4.17	1.24
Stamp Duty	0.97	1.04	0.48	12.92	2.09
Travelling and Food Expenses	25.03	33.54	29.52	58.33	29.44
Cost of entertainment of officials etc.	10.25	25.00	30.95	96.25	21.71
Bribes, etc. Paid	8.83	25.00	230.95	350.00	62.01
Time cost of loss of Workdays	82.00	105.63	128.81	139.79	93.80
Total Transaction Cost	132.44	203.54	432.61	674.17	216.83
Transaction Cost as % of Loan Amount	2.78	2.77	3.12	1.63	2.33

Table 8.3 shows transaction costs of borrowing from the formal sector by size of loan amount. Absolute transaction costs increase with the size of loan amount going up from Rs.96.69 for loan amount upto Rs.1000 to Rs.1415 for loan amount above Rs.50,000. However, transaction costs as per cent of loan amount decrease sharply with the increase in the size of loan amount. Thus, for loans upto Rs.1000 transaction costs are as high as 12.99 per cent of loan amount but go down to 0.96 per cent of loan amount for loans exceeding Rs.1 lakh. The high transaction costs of borrowing for the small borrower tend to discourage them from borrowing

from the formal sector throwing them into the hands of the local moneylenders even though he charges very high interest rates.

Table 8.3 : Transaction Cost of Borrowing From Formal Sources Per Borrower by Size of Loan Amount (in Rs.)

Loan Amount (Rs.)	No. of Borrowers	Average Amount of Borrowing	Average Transaction Cost	Transaction Cost as % of Loan Amount
Upto 1000	55	744.60	96.69	12.99
1000- 3000	61	1766.56	113.69	6.44
3000- 5000	15	3968.27	142.33	3.59
5000- 7500	18	6313.89	302.06	4.78
7500-10000	18	9235.28	365.28	3.96
10000-15000	22	12427.27	307.73	2.48
15000-25000	12	18375.00	675.42	3.68
25000-50000	5	28909.00	595.00	2.06
50000-100000	6	79666.67	1415.00	1.78
100000+	1	130000.00	1250.00	0.96
Total	**213**	**8143.51**	**253.47**	**3.11**

VIII.3 PERCEPTIONS ABOUT COMMERCIAL BANKS

Since the nationalization of banks in 1969 the network of commercial bank branches has rapidly spread over rural and semi-urban areas. However, as we have seen earlier, the commercial banks are primarily catering to the needs of the better off sections of the rural society and the access of the rural poor to bank facilities has remained limited. In our sample three-fourths of the respondents expressed their willingness to borrow from the commercial banks but only around one-third reported having taken a bank loan in the past (Table 8.4). Only 21 respondents, i.e. 4.1 per cent of the sample reported that they depended upon the services of a

middleman to obtain a bank loan. About 5 per cent respondents said that their application of bank loan was rejected. The grounds given for rejection included non-repayment of past dues or failure to pay bribe to bank officials.

Over half of the respondents were willing to pay higher interest on bank loans. Majority preferred to pay 8 to 12 per cent rate of interest on bank loans. However, nearly 31 per cent were willing to pay over 12 per cent rates of interest (Table 8.4). An overwhelming majority desired that banks should also give consumption loans.

Table 8.4: Transactions with and Views About Commercial Banks

Item	No. of Respondents	Per cent of Total Respondents
Respondents willing to borrow from commercial banks	380	74.51
Respondents who have actually borrowed from banks in past	185	36.27
Respondents whose application for bank loans were rejected	27	5.29
Reason for Rejection:		
(a) Outstanding Loans	14	2.75
(b) Inability to pay bribe	13	2.55
Respondents willing to borrow from banks at higher rate of interest	286	56.07
Preferred Rate of Interest		
(a) Below 8 per cent	55	10.78
(b) 8-12 per cent	299	58.63
(c) Above 12 per cent	156	30.59
Would like banks to give consumption loans	358	70.20
Respondents who have defaulted on payment of bank loans	30	5.88
Reasons of Default		
(a) Failure of crop	5	0.98
(b) Asset damaged	5	0.98
(c) Not aware about date of payment	11	2.16
(d) Diverted to Consumption	9	1.76

About one-sixth of the respondents who had borrowed from the banks admitted that they had defaulted on payment. The main reasons of default mentioned by respondents included

unawareness about details of repayment, diversion of funds to consumption purposes and crop failure.

Respondents were also asked to point out the problems in borrowing from commercial banks and rank them according to importance. The responses obtained have been presented in Table 8.5. The major complaint of villagers was complicated procedure and paper work involved. Around half of the respondents also referred to the location of bank branches at an inconvenient distance and delays in sanction of loans. Significantly nearly two-third villagers complained of corruption and bribery prevalent in bank offices for securing loans, while over two-fifths found the attitude of bank officials unhelpful. Such perception is a sad commentary on the functioning of the public sector banks in rural areas. The mal-practices associated with the working of subsidy oriented government schemes like IRDP seem to be responsible for creating such a bad impression in peoples mind. The harsh method of loan recovery sometimes followed by banks has also instilled a fear of future harassment in the mind of a high proportion of villagers.

Table 8.5 : Per Cent Distribution of Respondents According to Problems in Borrowing From Commercial Banks

Type of Problem	Respondents Mentioning the Problem	Rank Assigned		
		First	Second	Third
Complicated procedure and paper work	69.4	17.3	23.9	13.5
Corruption and bribery	65.1	21.8	19.2	8.4
Delay in sanctioning loans	50.6	6.5	7.5	13.9
Located at a distance	47.5	21.8	7.3	7.8
Fear of future harassment	44.9	5.3	4.1	8.8
Unhelpful attitude of bank officials	41.6	8.0	14.3	12.0
Rate of interest too high	30.6	2.0	3.3	5.3
Insistence on collateral security	25.7	2.4	2.5	5.0
High cost incurred in securing loan	20.8	1.6	3.1	4.5

Around one-third of villagers find the rate of interest charged by banks as too high. Other problems, which dissuade villagers from seeking bank loans, include insistence on collateral security and high transaction costs in securing bank loans.

Given the prevailing perceptions about the working of the banks it is not surprising to find that the foremost suggestion given by the respondents is that corruption and bribery should be checked (Table 8.6). Lower interest rate comes at the second most important suggestion offered by the respondents. They also want that the procedures should be simplified and delays in sanctioning loans should be reduced. Respondents also felt that the attitude of bank officials should be more helpful and harassment of loanees should be avoided.

Table 8.6 : Suggestions of Respondents for Improving the Working of Banks

Suggestion	No. of Respondents Agreeing to the Suggestion	Per cent of Total Respondents
Corruption and bribery should be stopped	89	17.45
Interest rate should be lower	83	16.27
Delays in sanctioning loans should be reduced	74	14.50
Procedures should be simplified	71	13.92
Harassment of loanees should be avoided	55	10.78
Attitude of bank officials should be helpful	45	8.82

VIII.4 PERCEPTIONS ABOUT COOPERATIVE SOCIETIES

Nearly 60 per cent of our respondents were members of cooperative societies and over 90 per cent of members had taken loans from the cooperative societies. However, a good majority felt that obtaining loans from cooperatives is a difficult and cumbersome process (Table 8.7). A fairly high number expressed the view that illegal payment has to be made to office bearers in order to obtain loans from cooperatives and felt that casteism and favourism is prevalent in

giving loans. About one-third respondents were of the view that cooperatives have mainly benefitted the large farmers and suggested the need for separate cooperative societies for small farmers. Separate societies for scheduled castes were favoured by one-fourth of the residents. Opening up of membership of cooperative societies was also suggested by one-tenth of the respondents. Around one-sixth of the respondents felt that the interest rates charged by cooperatives are high and should be reduced. In short, in the perception of the villagers the working of cooperatives is vitiated by corruption and favouritism and they are not meeting the credit needs of the weaker sections and adequately as they are dominated by large farmers.

Table 8.7 : Perceptions About Cooperative Societies

Item	No. of Respondents	Per cent of Total Respondents
Member of Cooperative Society	299	58.62
Have borrowed from Cooperative Society	276	54.11
Obtaining loan from societies is difficult	224	43.92
Illegal payments have to be made to take loan	144	28.24
Casteism and favouritism is prevalent in giving loans	137	26.86
Cooperatives have benefited mainly the large farmers	170	33.33
Separate societies for small farmers needed	154	30.20
Separate societies for scheduled castes needed	127	24.90
Membership should be opened for landless labourers	52	10.20
Interest rate should be reduced	74	14.51

VIII.5 ROLE OF NON-BANKING FINANCIAL COMPANIES

Of late non-banking financial companies have mushroomed all over the country. They are gradually penetrating the rural areas to mobilize rural savings. The track record of many of these companies has been dubious. Many of them were in the nature of fly-by-night operators and

have simply vanished from the scene after cheating their clients. Many others followed unsound investment policies and went bankrupt.

In Uttar Pradesh also many of such companies have emerged on the scene. Some of these companies which were operating in the area of our study included Crystal Corporation in Almora district, Rapti Finance in Azamgarh and JVG Group in Lakhimpur. However, only 5 respondents (i.e. 1 per cent of our sample) reported that they had recurring deposits with NBFC on which they were promised 14 per cent annual interest. The monthly instalment was being collected from depositors by an agent of the NBFC. Three of these depositors were from Azamgarh district and one each from Almora and Lakhimpur district. No such case was reported in Lalitpur and Muzaffarnagar districts. One out of the five depositors mentioned that he was cheated by the financial company. In short, the presence of the NBFC in rural credit market is still negligible in UP except in some localized pockets. As a result no detailed examination of the role of NBFC could be undertaken in the present study.

VIII.6 CONCLUSION

To sum up, on an average a loan from the formal sector financial institutions involves a transaction cost of Rs.217, which comes to 2.33 per cent of the loan amount. Transaction costs as per cent of loan amount were found to be 1.63 per cent in case of commercial banks, 2.78 per cent in case of cooperative societies and 3.12 per cent in case of regional rural banks. Opportunity cost of loss of working day was found to be major component of transaction costs of borrowing followed by illegal payments. Transaction costs as per cent of loan amount for small borrowers were found to be much higher as compared to the large borrowers.

The major problems faced in taking bank loans listed by the respondents included complicated procedure and paper work, inconvenient location of bank branches, prevalence of corruption and bribery and unhelpful attitude of bank officials. The unfavourable impression prevailing about the functioning of the commercial banks along with the high transaction costs involved disuades the rural poor from approaching them for loans.

The picture that emerges about the cooperative societies from our field study is equally unfavourable and depressing. The perception of villagers in general is that the cooperatives are dominated by large farmers and their working is vitiated by corruption and casteism. For these reasons, separate cooperatives for small farmers and scheduled castes were suggested by many.

Finally, the study revealed that the presence of the non-banking financial companies in the rural areas of UP is still negligible except in some localized pockets.

CHAPTER IX

TRANSACTION COSTS AND PERCEPTION OF BORROWERS ABOUT INFORMAL SECTOR MONEYLENDERS

IX.1 INTRODUCTION

In this chapter we have discussed the transaction costs of borrowing from the informal sector and the perception of borrowers about the moneylenders. We first discuss the most frequently approached sources for informal credit and the extent of dependence on the moneylenders. Mode and terms of informal loans are then discussed. This is followed by a discussion of the transaction costs incurred in borrowing from the informal sector. Reasons for preference for informal loans are also examined. Finally, the perceptions of the borrowers about the moneylenders are discussed along with the issues of perceived exploitation and domination.

IX.2 DEPENDENCE ON MONEYLENDERS AND FREQUENCY OF BORROWING

Around 55 per cent of our respondents usually approach informal sector credit agencies to meet their credit requirement (Table 9.1). In two-thirds of these cases loan is obtained for consumption purpose, while in one-fourth case it is obtained for production purpose and in remaining one-tenth cases both consumption and production loans are taken from the informal credit market. Thus, around one-fifth of our respondents depend upon the informal credit market even for productive loans.

Table 9.1 : **Distribution of Informal Sector Borrowers by Usually Preferred Sources**

(Nos.)

Source of Credit	Production Loan	Consumption Loan	Both Loan	Total
Friends and Relatives	2(4.08)	40(23.81)	2(9.09)	44(18.41)
Landlords	4(8.16)	8(4.76)	2(9.09)	14(5.86)
Agriculture Moneylenders	26(53.06)	94(55.95)	10(45.46)	130(54.39)
Traders/Arthia	12(24.49)	11(6.55)	6(27.27)	29(12.13)
Professional Moneylenders	5(10.21)	15(8.93)	2(9.09)	2(9.21)
Total	49(100.00)	168(100.00)	22(100.00)	239(100.00)

As Table 9.1 shows agricultural moneylender is the most frequently approached source of credit both for consumption and production purposes. Friends and relatives are the next most preferred source of credit, mostly for consumption purposes. Traders and professional moneylenders are approached by around one-fifth of the borrowers in the informal credit market both for production and consumption loans.

Out of the total 510 respondents 126 (24.71 per cent) reported they were taking loans from the moneylenders on a regular basis and another 113 (22.16 per cent) said they were taking loans from moneylenders in frequently (Table 9.2).

Around three-fourths of the borrowers depending upon the informal credit reported that they usually borrowed from the same individual indicating a close and stable lender-client relationship. In fact, two-thirds of these borrowers were taking loans from the same moneylenders for last 5 years (Table 9.2).

Table 9.2 : Frequency of Dependence on Moneylenders

(Nos.)

Item	Number of Respondents	Per Cent to Informal Sector Borrowers
Respondents taking loans from moneylenders		
(i) Regularly	126	52.71
(ii) Infrequently	113	47.29
TOTAL	239	100.00
Respondents taking loans from:		
(i) Some person	183	76.57
(ii) Two persons	44	18.41
(iii) More than two persons	12	5.02
TOTAL	239	100.00
Taking loans from the same person		
(i) For last 5 years	154	58.57
(ii) For last 10 years	78	32.64
(iii) For more than 10 years	7	2.93
TOTAL	239	100.00

IX.3 MODE AND TERMS OF LOAN

The mode of obtaining loans from rural moneylenders is simple and quick. Generally the transaction is settled in half an hour. Over half of the borrowers reported having obtained loans on oral agreement, while in around two-fifth cases signature or thumb impression on a paper was taken (Table 9.3). Only in 6.5 per cent cases a legal agreement was entered into between the lender and the borrower. Presumably these are cases in which loan amount involved is somewhat large and assets are to be mortgaged.

In majority of cases (around 80 per cent) loans were obtained upon personal security as the borrower is directly known to the moneylender. In some cases where the borrower is not directly known third party security is needed. A very small number reported taking loans on the basis of some collateral like jewellery, etc. (Table 9.3).

Table 9.3 : Mode and Terms of Informal Loans

Item	Number of Respondents	Per Cent to Total Borrowing Respondents
Method of giving Loans		
(i) Oral Agreement	136	56.90
(ii) Written Agreement	89	37.24
(iii) Legal Agreement	14	6.52
TOTAL	239	100.00
Nature of Security		
(i) Personal Security	187	78.24
(ii) Third Party Security	35	14.60
(iii) Jewellery, etc.	17	7.11
TOTAL	239	100.00
Frequency of Payment		
(i) Monthly	38	15.90
(ii) Six monthly	128	53.56
(iii) Annual	50	20.92
(iv) More than a year	23	9.62
TOTAL	239	100.00

The system of repayment of loan is also simple and convenient. While some borrowers reported repayment of loan in monthly instalments, majority preferred to pay on a six monthly basis. In around one-third cases repayment was made after one year or more (Table 9.3).

IX.4 LOANS IN KIND

With the spread of monetization in the rural economy the practice of taking loans in kind is gradually disappearing. Only 29 or 5.6 per cent of our respondents said they had taken loans in kind. Out of these 29 persons only 12 were resorting to loans in kind frequently, while 17 had taken loans in kind only sometimes. On an average about 1 quintal of foodgrains was taken by

borrowers in kind valued at 500 to 600 rupees per quintal. Out of the total 29 borrowers in kind 20 reported they had borrowed foodgrains for own consumption whereas 9 reported borrowing for seed purposes along with own consumption. Generally borrowers in kind are required to repay one and a half times of borrowed foodgrains. 12 persons who had borrowed in kind reported they had worked on the fields of the moneylender in lieu of the loan taken in kind. Thus, it appears that it is mainly landless labourers in distress conditions who are taking loans in kind, but their numbers has significantly declined.

Table 9.4 : Details of Loans in Kind

Item	Number	Per Cent
Borrowers Taking Loans in kind		
(i) Never	210	87.87
(ii) Sometimes	17	7.11
(iii) Frequently	12	5.02
TOTAL	**239**	**100.00**
Average amount of foodgrains borrowed per household	1.10 Qtls.	
Value of Loans in kind per borrower	Rs.582	
Purpose of Loans in Kind:		
(i) Seed Requirement	9	31.03
(ii) Own Consumption	20	68.97
TOTAL	29	100.00
Terms of Loan		
(i) Return in kind	17	58.62
(ii) Payment through wage labour	12	41.38
TOTAL	29	100.00

IX.5 TRANSACTION COSTS OF BORROWING

The major advantage of informal credit is its easy accessibility. Out of the 239 respondents who reported borrowing from the moneylenders, 134 (56.07 per cent) reported that they do not have to travel outside the village to obtain loan as the moneylender resides in the

village itself. Out of the remaining 105 borrowers who had to travel outside the village distance involved was less than 3 kms. in case of 77 borrowers and between 3 to 5 kms. in case of 21 borrowers (Table 9.5). Only in rare cases travel of more than 5 kms. was involved. For majority of them only one visit had to be made to moneylender to obtain loan. However, in about one-fourth cases 2 or 3 visits had to be undertaken.

Table 9.5 : Distribution of Respondents According to Distance Travelled to Borrow from Moneylenders

Distance Travelled (in kms.)	Number of Respondents	Per Cent of Borrowers
Less than 1 km.	134	56.07
1 to 3 kms.	77	32.22
3 to 5 kms.	21	8.79
Above 5 kms.	7	2.93
Total	239	100.00

Total transaction cost of borrowing from the informal sector came to only Rs.12.05 per borrower against the transaction cost of Rs.253.47 for borrowing from the formal sector. The transaction costs came to 0.45 per cent and 3.11 per cent of informal sector loans and formal sector loans respectively.

The main components of transaction costs of borrowing from the informal sector were cost of travelling (Rs.3.56), opportunity cost of loss of work time (Rs.5.02) and cost of stamp duty, etc. (Rs.3.48), which came to 29.54 per cent, 41.66 per cent and 28.80 per cent of total

transaction costs of borrowing respectively. No systematic relationship between loan amount and transaction costs as per cent of loan amount were observed in case of the informal sector loans (Table 9.6). However, absolute transaction cost increased with the size of loan as some formalities were required in case of large size loans as a precautionary motive.

Table 9.6 : Transaction Cost of Borrowing From Informal Sources Per Borrower by Size of Loan Amount

Loan Amount (in Rs.)	No. of Borrowers	Average amount of Loan (Rs.)	Average Amount of Transaction Cost (Rs.)	Transaction Cost as % of Loan Amount
Upto 1000	72	742	5.28	0.71
1000 to 3000	121	1997	7.88	0.39
3000 to 5000	23	4461	8.26	0.19
5000 to 7500	7	4239	26.43	0.62
7500 to 10000	9	9348	31.11	0.33
10000 to 15000	2	11850	83.50	0.70
15000 to 25000	5	20200	85.00	0.42
All Borrowers	**239**	**2662**	**12.05**	**0.45**

IX.6 REASONS FOR REFERENCE OF LOANS FROM THE MONEYLENDERS

The respondents were also asked to give their reasons for preferring borrowing from the moneylenders. The overwhelming reasons for taking loans from the moneylenders are that it is locally available, easy to obtain and does not require collateral in most of the cases (Table 9.7). A fairly good number also approach the local moneylender as they have personal social or economic relations with him. In some cases the borrowers go to the moneylenders due to the fact that the institutional loan was either not accessible or was insufficient. In a few cases a client-patron relationship was mentioned as the reason for depending on the moneylender for credit needs.

Table 9.7 : Reasons for Preference of Loans From the Moneylender

Reason	Number of Borrowers Agreeing	Per Cent to Total Borrowers (N = 239)
Loan is locally available	229	95.82
Loan is easy to obtain	219	91.63
No security is required	194	81.17
Personal contact with the moneylender	113	47.28
Institutional loan is not sufficient	39	16.32
Lack of institutional facilities in the area	34	14.23
Institutional loan was rejected	27	11.30
Influence/pressure of moneylender	16	6.69
Business/trade links with the moneylender	14	5.86
Employer-employee relationship	9	3.77

IX.7 PERCEPTION ABOUT MONEYLENDERS

Some probing questions were asked from respondents about their exploitation by moneylenders and their perception about him. Significantly, complaints about cheating through over recording of loan amount or under recording of loan payment were found to be rare. Only 3 out of 239 borrowers reported such cases of cheating. However, where the patron-client relationship existed some cases of exploitation were observed. Thus, 6 borrowers who sold their produce to the moneylender/trader reported under valuation of their produce. Similarly, 12 borrowers reported receiving lower wages by the moneylender-employer, while 3 borrowers complained of forced labour without payment (Table 9.8).

The rural moneylender being in a socially and economically dominant position resorts to coercive methods for realizing his loans when he finds the borrowers in a recalcitrant mood. Most often abuse and threats are sufficient to realize the loans, but in some cases actual physical

assault and forcible lifting of household assets is also resorted to. In our sample of 239 indebted households, 14.64 per cent borrowers reported cases of abuse and threats, 4.60 per cent reported physical assault on them and 2.92 per cent reported forcible lifting of household assets.

Table 9.8 : Borrowers Reporting Cases of Cheating or Coercion by Moneylenders

Type of Cheating/Coercion	Number of Borrowers Reporting such cases	Per Cent to Total Borrowers (N = 239)
Over recording of loan amount	2	0.84
Underreporting of loan repayment	1	0.42
Under valuation of assets	1	0.42
Lower Value of produce	6	2.51
Lower Wages paid	12	5.02
Forced unpaid labour	3	1.26
Abuse and threats	35	14.64
Physical assault	11	4.60
Forcible lifting of assets	7	2.92
Forced to vote in elections	115	48.12

Another form of dominance exercised by the moneylender is to force the borrowers to vote in panchayat or general elections according to the dictates of the moneylender. Nearly, half of the indebted households reported being subject to this kind of pressure. This type of coercion was more frequently exercised in case of village and caste panchayat elections as compared to elections for party positions or assembly seats.

The borrowers' perception about moneylender and exploitation by him are shown in Table 9.9. Over four-fifths of the borrowers feel that the moneylender acts as a friend at the time of need even though he charges a high interest rate. Around three-fourths of the borrowers also feel that their relationship with the moneylender is a normal commercial relationship. Only one-

tenth of borrowers feel that they are cheated by the moneylender, though nearly two-fifths think that the moneylender exploits the people due to his high social status. The feeling about exploitation is not confined to people of lower castes but extends to poor people of all castes. Though feeling of exploitation by moneylenders is fairly widespread, less than one-third of the borrowers perceive the moneylender as a bad or evil person.

Table 9.9 : Borrowers Perception about Moneylenders

Perception about Different Aspects	Borrowers Sharing the Perception	Per Cent to Borrowing Households (N = 239)
Moneylender acts as a friend at the time of need	197	82.46
Interest charged is too high	199	83.26
Relationship with moneylender is normal commercial relationship	154	64.44
Moneylender exploits poor people of all castes	108	45.19
Moneylender exploits people of lower castes	75	31.38
Moneylender exploits due to his high social status	96	40.17
Moneylender cheats the borrowers	25	10.46
Moneylender is a bad man	67	28.03

IX.8 CONCLUSION

Our findings reveal some interesting facets of the relationship of the borrowers with the rural moneylenders and their perceptions about his role. A high proportion of rural households have to depend upon the local moneylender to meet their credit demand particularly for his consumption requirements. Agricultural moneylender is the most frequently approached source for credit. More often than not the relationship between the borrower is close and stable overtime. Majority of the borrowers usually borrow from the same moneylender on a regular basis. Most of the credit transactions are in cash though in a few cases loans in kind are also taken mostly by the landless labourers in economic distress.

The major advantage of informal credit is its easy accessibility. It is locally available, easy to obtain and generally does not require collateral. The transaction costs of borrowing from the informal sources are low being less than half per cent of loan amount. In some cases the institutional borrowers also approach the informal credit market due to inadequacy of institutional loan.

The transactions in the informal credit market are generally assuming the form of a normal commercial relation though based on personal contacts. However, in cases where a patron-client relationship exists between the lender and the borrower as in the case of agriculturist moneylender and farm labour some degree of exploitation was observed reflected in low payment of wages or produce and forced labour.

Due to his dominant position the rural moneylender is able to exercise coercive means to realize his loans from recalcitrant borrowers, though such cases were found to be small in number. Another form of dominance observed was the pressure exercised on the borrowers to vote in village panchayat and party or general elections.

The majority of rural borrowers regarded their relationship with the moneylender as normal commercial relationship. However, the feeling that the moneylender exploits the poor people due to his high social status is fairly widespread, though cases of cheating were reported to be few. The general perception of the borrower tends to be favourable to the moneylender who is perceived as a friend at the time of need, even when he charges an exorbitant rate of interest.

CHAPTER X

INTERLINKED CREDIT TRANSACTIONS

X.1 INTRODUCTION

Inter-linkage of rural credit transactions with other agrarian markets (e.g. land, labour and commodity markets) has received much attention in the literature on rural credit. Inter-locking of agrarian markets occurs in a situation where the borrowers and creditors face each other in more than one agrarian market. The examples of such situations are when the moneylender is also a lessor, employer or buyer of produce of the borrower. Several studies have pointed out to the existence of such interlocking of agrarian markets in India and other developing countries (Bardhan and Rudra, 1978; Bell and Srinivasan, 1989; Bliss and Stern, 1982; Floro and Yotopolous, 1991; Jones, 1980; Sarap, 1991).

It has been argued by many that in the absence of competitive conditions in the interlinked agrarian markets the dominant party is in a position to exploit the weaker party by putting unfavourable conditions of transactions in one or more markets (Bhaduri, 1973 and 1983; Bharadwaj, 1974; Sen, 1981; Srivastava, 1989). Others have argued that interlinked credit transactions are not always exploitative (Bardhan and Rudra, 1978 and 1985; Basu, 1984; Ghose and Saith, 1976; Newbery, 1975; Pant, 1980; Rao and Subrahmaniyam, 1983; Sarap, 1991; Srinivasan, 1979).

Interlinked credit contracts are seen by some scholars as a means to alleviate the problems of screening, incentive and enforcement often faced by the lenders (Hoff and Stiglitz, 1990). Thus, lenders who are also landlords and traders may interlink the terms of transactions

in the credit market with those of transactions in the product or rental markets (Braverman and Stiglitz, 1982 and 1986; Bell and Srinivasan; Basu, 1983; Braverman and Guasch, 1984). Similarly, credit-labour market interlinkages are one way to avoid the possibility of default by the borrowers (Basu, 1983; Bardhan, 1984). It has also been pointed out that inter-linked transactions tend to reduce transaction costs (Bell, 1988).

In the present chapter we have analyzed the different aspects of inter-linkages in the credit market on the basis of the field survey of borrowers and moneylenders.

X.2 EXTENT OF LINKED TRANSACTIONS

Over two-fifths of the loans from the informal sector were in the nature of linked transactions. Landless labourers accounted for nearly half of these linked transactions. The incidence of linked transactions was found to be highest among the landless labour households followed by marginal farmers and artisans and self-employed groups (Table 10.1). Thus, poorer sections of the rural society are forced by the circumstances to enter into linked transactions while borrowing from the informal sector.

Table 10.1: Linked Credit Transactions by Type of Household

Type of Households	No. of Linked Borrowers	Per Cent to Total Sample Households in the Category	Per cent to Total Linked Borrowers	Per cent to Indebted Borrowers in the Category
Marginal Farmers	32	21.62	31.37	41.56
Small Farmers	3	4.00	3.92	23.08
Landless Labourers	47	50.00	46.08	53.41
Artisans and Self-employed	20	18.52	19.61	35.71
Total	**102**	**20.00**	**100.00**	**42.68**

Source : Field Survey

The dominant form of linkage in our sample was found in the case of labour market. Interlocked credit and labour market accounted for over three-fourths of the linked transactions (Table 10.2). Very few cases of linkage with land market or input-output market were reported in our field survey.

Table 10.2: Distribution of Linked Borrowers by Type of Linkage

Type of Linkage	No. of Linked Borrowers	As Per Cent of Total Linked Borrowers
Tenant	7	6.86
Permanent Farm Labour	1	0.98
Casual Farm Labour	84	82.35
Input-Supply	3	2.94
Output Sale	7	6.86
Total	**102**	**100.00**

Source : Field Survey

X.3 INTERLINKAGE WITH THE LABOUR MARKET

As observed earlier interlinkage of credit and labour market is the dominant form of interlinked credit market in the study area. Out of the total 90 moneylenders interviewed as many as 38 (42.2 per cent) mentioned giving tied loans. The practice of providing unsecured loans on the promise of work as farm labour at a later date is used as a device by the agriculturist moneylender to ensure labour supply during peak seasons, when labour market is tight and agricultural wages higher. Around three-fourths of the moneylenders giving tied loans expressed the view that tying of credit with labour ensures labour supply at the required time and also helps in saving of labour cost through payment of wages below labour cost. They also felt that it was easier to take work from an indebted labour as compared to a free labour. However, only one-

third of such moneylenders said that tying of labour with credit helps in ensuring repayment of loan. Obviously, the moneylenders feel that they will be in a position to ensure loan repayment even without labour tying. Thus, unlike the general perception labour tying is not so much a screening device to avoid the problem of default as a device to ensure labour supply for smooth conduct of agricultural operations during the peak season.

Details of linked loans given by the moneylenders to permanent and casual farm labourers are shown in Table 10.3. The average amount of loan to permanent farm labourers was found to be higher. The period of such loan was also somewhat longer. In most of the cases the interest charged was in the range of 30 to 60 per cent corresponding to the monthly interest of 3 or 4 per cent. Wages paid to the indebted labourers were reported to be lower by around 15 per cent as compared to the market wages for attached or casual labour. On an average an indebted

Table 10.3 : **Details of Linked Loans Given by Moneylenders to Permanent and Casual Farm Labour**

Item	Permanent Farm Labour	Casual Farm Labour
No. of Persons to whom loan is given	16	66
Average amount of Loan (Rs.)	3025	1523
No. of Loans by Period:		
(a) Upto 6 months	5	31
(b) 6 to 12 months	8	30
(c) Above 12 months	3	6
No. of Loans by Interest Rate		
(a) Upto 30 per cent	1	12
(b) 30 to 60 per cent	11	46
(c) Above 60 per cent	4	8
Average wages paid (Rs.)	9450[a]	28[b]
Average Market Wage (Rs.)	11250[a]	33[b]
Saving on Wages per Farm Worker (Rs.)	1800	310[c]
Saving of wages as per cent of loan amount	**59.5**	**20.4**

Notes : a. ~~Animal~~; Annual;
b. Daily;
c. Average labour days worked on moneylenders farm is estimated at 62.

casual labour and his family members put in 62 days of labour on the farm of the moneylender receiving wages below the market wage. Saving on wage cost amounted to nearly 60 per cent of the loan amount in case of permanent farm labour and about 20 per cent of loan amount in case of casual farm labour.

The analysis of sample households reporting labour linked loans reveals more or less a similar picture (Table 10.4). On an average such linked borrowers provided 87 days labour on the farms of the moneylenders and received wages lower than the prevailing market wages. Saving on wage costs by the moneylender amounted to nearly one-fourth of the average loan amount.

Our analysis reveals that by linking the credit supply with labour supply the rural moneylender is able to extract a much larger surplus from the borrowers as compared to non-linked transactions.

Table 10.4 : **Details of Labour Linked Loans Taken by Sample Borrowers from Rural Moneylenders**

No. of Labour linked Loans	85
Average amount of Loan (Rs.)	1886
No. of loans by period:	
(a) Upto 6 months	42
(b) 6 to 12 months	42
(c) above 12 months	1
No. of loans by rate:	
(d) Upto 6 months	8
(e) 6 to 12 months	67
(f) above 12 months	10
Average No. of labour days provided	87
Average daily wage received (Rs.)	28
Average daily market wage (Rs.)	33
Saving of wage costs (Rs.)	435
Saving of wage costs as per cent of loan amount	23.06

X.4 INTERLINKAGE WITH LAND MARKET

Interlocking of credit and land market was also prevalent in the study villages, though its incidence is low. Out of the 90 moneylenders surveyed only 17 (18.89 per cent) reported leasing out of land to their clients. Two-thirds of these moneylenders mentioned that they preferred to give land on lease to avoid the botheration of self-cultivation and dealing with the labour, while around one-third affirmed that this helps in ensuring repayment of loan.

Details of land linked credit transactions are given in Table 10.5. Most of the lessees were landless labourers and a few marginal farmers, who were in need of consumption loans. The amount of land per lessee was quite small usually less than one acre. Apart from consumption loan given in kind, the moneylender provided a part of fertilizer and seed requirement and some cash amount. Term of lease agreement included repayment in cash of a fixed amount in one-third cases and share in produce in remaining two-third cases. The return on such land-linked loans came to 61.5 per cent in one crop season, which gives an annualized rates of return of 123.0 per cent. This, of course, includes return on land as well as capital.

Table 10.5 : **Details of Land Linked Loans Given by Moneylenders**

Item	Amount
Land given on lease to borrowers	21 acres
No. of borrowers to whom land was given on lease	24
Average amount of land given on lease	0.88 acres
Average amount of loan:	
(a) Cash loan	Rs. 271
(b) Value of fertilizers and seeds provided	Rs. 263
(c) Value of consumption loan in kind	Rs. 579
Total	**Rs.1113**
Lease rent received:	
(a) In Cash	Rs. 506
(b) Value of Produce Shared	Rs.1292
Total	Rs.1798
Lease rent received as per cent of total loan	61.5

In some cases a reverse process of land transfer takes place when the moneylender acquires usufruct mortgage on land of the borrower as a security against loan. In our sample 13 moneylenders (i.e. one-sixth of the sample) reported such usufruct mortgage, though land involved was rather small being 8.5 acres only. Usually no interest is charged on such loans, in lieu of which the moneylenders retain the whole earnings from cultivation. The basic purpose of usufruct mortgage was reported by most of the moneylenders as ensuring the repayment of loan. However, in a few cases of default it helped them to acquire ownership of land.

On the side of borrowers few cases of land linked loans were reported by the households surveyed. Thus, only 7 borrowers (2.93 per cent of informal sector borrowers) had taken land on lease from the moneylender. Average amount of land leased in per borrower in such cases was 1.4 acres only. The terms of lease were half share of produce in case of cost sharing or a fixed payment of Rs.4000 per acre for a year. Most of these loans were for a six-month duration. The average interest charged worked out at 52.8 per cent per annum.

X.5 MARKET LINKAGES

Few cases of linkage of credit with input or output market were found in our field study. Only 3 cases were reported where the borrower had taken seed loan, while 7 borrowers reported selling their produce to the moneylender. These cases constituted hardly 4 per cent of informal sector borrowers. In such cases the moneylender is able to extract larger surplus through under valuation of output and over valuation of input. Thus, it was found that while the moneylender charged around 10 per cent higher price for the input supplied by him, he offered around 10 per cent lower amount than the market price for the output purchased by him.

X.6 CONCLUSION

Around two-fifths of the loans from the informal sector were found to be in the nature of linked transactions. Interlocked credit and labour market accounted for over three-fourths of the linked transactions. It is mainly the landless labourers, marginal farmers and self-employed groups without any tangible asset to offer as security, who are forced to enter into such linked transactions. Usually the wages paid in case of such tied loans are generally 15 per cent lower than the prevailing market wage. Our analysis reveals that by linking credit supply with labour supply the rural moneylender is able to ensure labour supply during the peak season and is also able to extract larger surplus by offering lower wages.

Less than one-fifth of the moneylenders reported leasing out of land to their clients. The main objective of giving land on lease was to avoid the botheration of self-cultivation and dealing with the labour. Thus, land leasing may be regarded as an indirect way of controlling labour power. However, in a few cases the agriculturist moneylenders preferred to acquire possession of loan for cultivation through usufruct mortgage of land against loans. These two situations reflect the differences in the land ownership and labour supply situation faced by the moneylenders. The marginal farmers or agricultural labourers with tiny pieces of land, on the other side, may prefer to lease out their land against interest payment and seek employment opportunity elsewhere.

Very few cases of linkage of credit with input or output market were reported in the field survey. The reason of this situation may be found in the fact that few borrowers have marketable surplus to sell and consequently few traders-moneylenders are operating in the study villages. In the few cases in which such market linkages existed it was found that the moneylender is able to

extract larger surplus through under-valuation of produce purchased and over-valuation of inputs supplied to the borrowers.

In short, the inter-locking of the credit with other agrarian markets to the extent it prevails in the rural areas reveals a situation of unequal exchange, which enables the dominant partner (the agriculturist moneylender) to impose unfavourable conditions on the dependent partner (the borrower) to extract larger surplus than would have been otherwise possible.

CHAPTER XI

MAIN FINDINGS AND RECOMMENDATIONS

XI.1 THE STUDY OBJECTIVES

Informal credit market continues to play an important role as a source of rural finance in the country in spite of the sizeable expansion of the institutional sources of credit. At the same time the nature and role of the informal rural credit market show considerable variation across different regions of the country depending upon the prevailing socio-economic conditions. The present study examines in depth the role and functioning of the informal rural credit markets in Uttar Pradesh, a backward agricultural region in northern India.

The study focussed upon the following issues:

1. The relative importance of informal credit market in meeting productive and non-productive credit needs of different segments of the rural households.

2. The reasons for the greater dependence of the poorer sections of the rural society, e.g., small and marginal farmers, landless labourers, rural artisans, etc., on informal sources of credit.

3. The relative interest rates and transaction costs of borrowing in the formal and informal credit market.

4. The perception of borrowers about the working of the rural financial institutions and informal sector moneylenders.

5. The extent of inter-locking of land, labour, product and credit markets in the rural areas.

6. The extent of linkages, if any, between the formal and informal credit markets.

XI.2 METHODOLOGY

The study primarily depends upon field surveys by a team of experienced researchers in the rural areas of Uttar Pradesh. A multi-stage random sampling design was adopted for the study. In the first stage one district was randomly selected from each of the five economic regions of Uttar Pradesh. The selected districts included Muzaffarnagar from Western region, Lakhimpur-Kheri from Central region, Mau from Eastern region, Almora from Hill Region and Lalitpur in Bundelkhand region.

In the second stage one block representing average condition of the district was selected from each district. From each selected block two villages were selected for field study – one developed village having a bank branch and one less developed village at least five kilometres away from a bank branch or cooperative society. This was done to capture the effect of availability of institutional finance on the working of informal credit market.

In the final stage 50 households were randomly selected from each village. Care was taken to ensure a representative sample covering cultivating households with different size of holdings as well as landless labourers, artisans and other groups. From Mau district a slightly larger sample was taken to cover the workers engaged in handloom sector. Thus, our total sample consisted of 510 rural households spread over 10 villages across different regions of the state.

Out of the total sample of 510 households 308 (60.4 per cent) belonged to cultivating households, 94 (18.4 per cent) belonged to landless labour households and remaining 108 (21.2 per cent) to other categories. Among the cultivating households 148 (48.1 per cent) were marginal farmers, 75 (24.4 per cent) small farmers, 42 (13.6 per cent) semi-medium farmers, 32 (10.4 per cent) medium farmers and 11 (3.6 per cent) large farmers. Thus, our sample is fairly representative of the agrarian structure of the state.

A detailed household schedule was prepared to convass relevant information on socio-economic conditions and various aspects of indebtedness from sample households. In addition interviews were held with 15 to 20 moneylenders operating in the study area whether located in the village or in nearby towns in each district. For this purpose a separate questionnaire was developed.

XI.3 THE RURAL CREDIT MARKET : THE DEMAND SIDE

Nearly 75 per cent of our sample households have reported being indebted, average outstanding loans amounting to Rs.6223 per reporting household and Rs.4649 per sample households. Average outstanding debt amounted to 16.43 per cent of average household income and only 1.39 per cent of the average value of household assets. The incidence of indebtedness was found to be higher among the poorer households.

The study revealed that institutional credit is now meeting around three-fourth of total rural credit demand. However, the access to institutional credit remains highly inequitous. The share of institutional loans in total loans was found to be positively related to the economic status of the household. The richest households were able to meet their total credit requirement from

the institutional sources, while the poorest households had to depend almost wholly on the informal credit market.

Informal sector accounted for a little above one-fourth of total outstanding debt. The non-cultivating households depended upon the informal credit market to a greater extent as compared to the cultivating households. Among the cultivating households the dependence of the marginal households on informal credit market was much greater as compared to other cultivating households. Thus, the informal credit market plays an important role in meeting the credit requirement of the weaker sections of the rural society.

Among the informal sources of credit the agricultural moneylender has emerged as the chief player accounting for over one-third of informal sector credit followed by friends/relatives and traders. The role of professional moneylenders and landlords was found to be relatively unimportant.

Small borrowers predominate the rural credit market specially so in the case of the informal sector. In case of over four-fifths of the borrowers from the informal sources loan amount was less than Rs.3000. The rural credit market is also dominated by short period transactions in bulk of cases duration of loan being less than 6 months.

The most quoted interest rates in the informal sector in the study area were 3 or 5 per cent a month, though some cases of interest rate of 10 per cent a month were also found. An inverse relation between rate of interest paid and the economic status of the borrower was also observed. It is generally the economically weaker sections which are forced to borrow from the informal credit market at very high nominal rates of interest. To some extent this reflects the higher risk premium as in most cases these sections had obtained loans on the basis of personal security not backed by valuable assets. The rural moneylender, who in most cases is a large cultivator

residing in the same village, is able to overcome the problem of screening faced by the institutional moneylender and is also able to use the instrument of unsecured credit to ensure supply of farm labour at the needed time in future.

The informal credit market is primarily meeting the current consumption and social expenditure requirement of the rural population. Around three-fourths of loans from the informal sector are used for non-productive purposes. Religious and social ceremonies account for nearly one-third of total informal credit while consumption expenditure and construction/repair of house account for about one-fourth of such loans each.

A little less than 80 per cent of the sample households expressed a need of credit. The average credit requirement per sample household was Rs.5536 against the actual borrowing of Rs.3625, which suggests a significant gap between credit demand and supply.

On the basis of our estimate of current borrowing per household the total size of rural credit market may be put at Rs.7250 crore, out of which Rs.5100 crore were provided by the formal sector and Rs.2100 crore by the informal sector. Thus, one can conclude that the total size of the credit informal market in Uttar Pradesh is fairly large even if its relative role is declining.

XI.4 THE RURAL MONEYLENDERS: THE SUPPLY SIDE

The profile of the 90 moneylenders interviewed by us reveals that they mostly belong to upper castes and are in upper middle age bracket. They are in the money lending business for a fairly long time though it is not reported as their primary occupation. The rural rich with surplus cash are engaged in money lending as a secondary activity, the large farmers being the principal players in the rural informal credit market. Money lending households come from a fairly

wealthy background with an average value of household assets including land of Rs.8 lakh. Average value of financial assets per household was reported at around Rs.64,000. The average annual household income of moneylenders was reported at Rs.81,250. Net income from money lending per household came to Rs.21,070 amounting to 25.9 per cent of annual household income.

Generally money lending is on a modest scale average volume of money lending being around Rs.54,000. A fairly high number of moneylenders felt that their business has been affected by the growth of banking facilities and cooperative credit. It was found that the moneylenders are meeting the credit needs of their clients spread over several villages. On an average one moneylender had 34 outstanding loans. Average amount of loan given per client was rather small at Rs.1604, being less than Rs.1000 in around 60 per cent cases. The duration of loans is also short. Nearly two-thirds of the loans outstanding were for a period upto 1 year.

Basically the moneylenders are using their own funds for carrying out the money lending business. Nearly 86 per cent of funds deployed were provided by the moneylenders themselves, 8 per cent funds were provided by friends and relatives, 2.4 per cent funds were borrowed from other moneylenders and around 3 per cent funds were borrowed from institutional sources.

Interest rate charged varied from 24 per cent to 120 per cent per year. However the most commonly charged interest rate was 36 per cent at which nearly three-fourths of the loans were advanced. Generally, moneylenders charge the same rates of interest from their clients. But one-third moneylenders reported charging different rates of interest from different group of borrowers to take advantage of the situation where urgency of the borrower is high and credit demand cannot be postponed as in case of medical treatment and social ceremonies.

The moneylenders give loans mostly to persons directly known to them on personal security or on the basis of third party security. Only in a limited number of cases collateral security was insisted upon. Transaction costs are extremely low. In a majority of cases loan is advanced on the basis of oral agreement or written agreement on a simple piece of paper. The borrower is expected to repay the loan according to his convenience.

Moneylenders sometime give loans in kind but the practice has declined considerably over time. The practice of repayment in cash even for loans taken in kind has become quite common.

Generally the moneylenders carried out their business on their own. The average annual business expenses of moneylenders amounted to 2.28 per cent of their total advances and 5.58 per cent of their interest income. Very few cases of repayment default were reported by the moneylenders. On an average the bad debts amounted to around 2 per cent of loans advanced.

The gross annual interest received by the moneylenders was estimated at 40.9 per cent of total loans, while net interest after taking into account business expenses and bad debts came to 36.7 per cent of loan amount. Thus, money lending remains a financially very attractive investment for rural rich with surplus cash, far in excess of any secure financial instrument available in the market.

To sum up, the rural informal credit market is performing the important task of intermediation between the cash surplus and cash deficit households in the localised economy. It provides a financially attractive and safe investment opportunity to the rural rich with cash surplus on the one hand and provides speedy cash at low transaction cost to the rural poor in urgent need of liquidity without access to alternative sources of credit. The moneylender no doubt charges high interest for an essential service in the prevailing situation.

Our analysis reveals that there is a high degree of monopolist profit in the interest charged by the rural moneylenders. There is little competition between the formal and informal sectors of the credit market as they are dealing with different segments of the market. Even among the rural moneylenders the element of competition is largely absent. The rural moneylenders are essentially operating in an oligopolistic market, with each oligopolist controlling a segment of the market in a stable client-patron relationship.

XI.5 TRANSACTION COSTS AND PERCEPTIONS ABOUT FORMAL CREDIT INSTITUTIONS

On an average a loan from the formal sector financial institutions involves a transaction cost of Rs.217, which comes to 2.33 per cent of the loan amount. Transaction costs as per cent of loan amount were found to be 1.63 per cent in case of commercial banks, 2.78 per cent in case of cooperative societies and 3.12 per cent in case of regional rural banks. Opportunity cost of loss of working day was found to be the major component of transaction costs of borrowing followed by illegal payments. Transaction costs as per cent of loan amount for small borrowers were found to be much higher as compared to the large borrowers.

The major problems faced in taking bank loans listed by the respondents included complicated procedure and paper work, inconvenient location of bank branches, prevalence of corruption and bribery and unhelpful attitude of bank officials. The unfavourable impression prevailing about the functioning of the commercial banks along with the high transaction costs involved disuades the rural poor from approaching them for loans.

The picture that emerges about the cooperative societies from our field study is equally unfavourable and depressing. The perception of villagers in general is that the cooperatives are

dominated by large farmers and their working is vitiated by corruption and casteism. For these reasons, separate cooperatives for small farmers and scheduled castes were suggested by many.

Finally, the study revealed that the presence of the non-banking financial companies in the rural areas of UP is still negligible except in some localized pockets.

XI.6 TRANSACTION COSTS AND PERCEPTIONS ABOUT INFORMAL SECTOR MONEYLENDERS

Our findings reveal some interesting facets of the relationship of the borrowers with the rural moneylenders and their perceptions about his role. A high proportion of rural households have to depend upon the local moneylender to meet their credit demand particularly for consumption requirements. Agricultural moneylender is the most frequently approached source for credit. More often than not the relationship between the moneylenders and the borrower is close and stable overtime. Majority of the borrowers usually borrow from the same moneylender on a regular basis. Most of the credit transactions are in cash though in a few cases loans in kind are also taken mostly by the landless labourers in economic distress.

The major advantage of informal credit is its easy accessibility. It is locally available, easy to obtain and generally does not require collateral. The transaction costs of borrowing from the informal sources are low being less than half per cent of loan amount. In some cases the institutional borrowers also approach the informal credit market due to inadequacy of institutional loan.

The transactions in the informal credit market are generally assuming the form of a normal commercial relation though based on personal contacts. However, in cases where a patron-client relationship exists between the lender and the borrower as in the case of

agriculturist moneylender and farm labour some degree of exploitation was observed reflected in low payment of wages or produce and forced labour.

Due to his dominant position the rural moneylender is able to exercise coercive means to realize his loans from recalcitrant borrowers, though such cases were found to be small in number. Another form of dominance observed was the pressure exercised on the borrowers to vote in village panchayat and party or general elections.

The majority of rural borrowers regarded their relationship with the moneylender as normal commercial relationship. However, the feeling that the moneylender exploits the poor people due to his high social status is fairly widespread, though cases of cheating were reported to be few. The general perception of the borrower tends to be favourable to the moneylender who is perceived as a friend at the time of need, even when he charges an exorbitant rate of interest.

XI.7 INTERLINKED CREDIT TRANSACTIONS

Around two-fifths of the loans from the informal sector were found to be in the nature of linked transactions. Interlocked credit and labour market accounted for over three-fourths of the linked transactions. It is mainly the landless labourers, marginal farmers and self-employed groups without any tangible asset to offer as security, who are forced to enter into such linked transactions. The wages paid in case of such tied loans are generally 15 per cent lower than the prevailing market wage. Our analysis reveals that by linking credit supply with labour supply the rural moneylender is able to ensure labour supply during the peak season and is also able to extract larger surplus by offering lower wages.

Less than one-fifth of the moneylenders reported leasing out of land to their clients. The main objective of giving land on lease was to avoid the botheration of self-cultivation and dealing with the labour. Thus, land leasing may be regarded as an indirect way of controlling labour power. However, in a few cases the agriculturist moneylenders preferred to acquire possession of land for cultivation through usufruct mortgage of land against loans. These two situations reflect the differences in the land ownership and labour supply situation faced by the moneylenders. The marginal farmers or agricultural labourers with tiny pieces of land, on the other side, may prefer to lease out their land against interest payment and seek employment opportunity elsewhere.

Very few cases of linkage of credit with input or output market were reported in the field survey. The reason of this situation may be found in the fact that few borrowers have marketable surplus to sell and consequently few trader-moneylenders are operating in the study villages. In the few cases in which such market linkages existed it was found that the moneylender is able to extract larger surplus through under-valuation of produce purchased and over-valuation of inputs supplied to the borrowers.

In short, the inter-locking of the credit with other agrarian markets to the extent it prevails in the rural areas reveals a situation of unequal exchange, which enables the dominant partner (the agriculturist moneylender) to impose unfavourable conditions on the dependent partner (the borrower) to extract larger surplus than would have been otherwise possible.

XI.8 WHY RURAL INFORMAL CREDIT MARKETS SURVIVES?

The important question that has to be addressed before offering any suggestion about the regulation or reform of the rural informal credit market is why the rural informal credit market

survives with its high interest rates in spite of the widespread growth of institutional sources of credit who charge much lower interest rates? The answer to this apparent puzzle lies firstly in the fact that there is little competition between the formal and informal segments of the rural credit market as the former deals primarily with productive credit and the latter primarily deals with non-productive credit. The small part of productive loans which the informal sector provides is also to the poorer sections to whom the institutional credit is either not accessible or is not adequate.

More importantly one should see the transactions in the informal credit market as rooted in and forming part of the rural poverty syndrome. A large number of poor rural households comprising the landless labourers, artisans, self-employed workers and marginal farmers faced with the chronic problem of income deficiency have to seek loans to meet their consumption requirements and social obligations through borrowing during the period their income falls short of their expenditure. With no alternative source of fulfilling the loan requirements these households have perforce to approach the rural moneylenders and enter into credit transactions with them at highly unfavourable terms. In most cases they have no collateral to offer except their labour power at a price below the market wage. When these poor indebted households have a temporary excess of cash income over their expenditure they return these loans only to borrow again after sometime. The process of borrowing and repayment repeats itself year in and year out. Thus, the rural informal credit market performs the important task of financial intermediation between the cash deficient and cash surplus rural households.

The above perspective, which looks at the problem of rural indebtedness as a part of rural poverty syndrome helps in understanding many features which characterize the rural informal credit markets, viz., small size and short duration of loan, high rate of interest, unsecured loans, stable patron-client relationship, and the interlocking of credit with agrarian markets. This

situation is particularly true for backward regions like Uttar Pradesh suffering from the chronic problem of landlessness and poverty. In a more dynamic agricultural situation the nature of informal credit market may undergo a change where informal credit meets a fair part of productive credit demand and the credit transactions between trader-moneylender and farmers predominate as some studies for Punjab and Haryana show (Chandra, 1993; Jodhka, 1995).

XI.9 FUTURE DIRECTIONS

From the analytical perspective developed above it follows that the reform of informal rural credit is closely linked to the larger issue of rural development, which alone can help in ameliorating rural poverty and reduce the dependence of the poorer sections on the rural moneylenders for subsistence loans. Both re-distributive and growth strategies are relevant in this context. As Lipton remarks: "Land distribution will reduce the demand for consumer credit, drastically increase, in the early years, the demand for production credit; and alter the mix of inputs, outputs and timings for which producer credit is sought" (Lipton, 1974, p.550). Hence, an understanding of structure of rural poverty and mal-distribution is crucial for designing an appropriate programme of rural credit.

The poverty alleviation programmes like IRDP and employment schemes also play an important if indirect role in reducing the dependence of the rural poor on the rural moneylenders by putting more purchasing power in their hands. Similarly improvement in rural health infrastructure and rural public distribution programme will help in reducing the dependence of the rural poor on informal credit and bring down the interest rates charged from them (Sarap, 1991, pp.161-162). Improvement in agricultural productivity through its income-augmenting and risk-reducing nature also leads to lowering of interest rate in the informal credit market (Bottomley and Nudds, 1969; Iqbal, 1983 and 1988).

Given the existing nature of transactions in the rural informal credit market regulatory measures are not expected to produce the desired results as their effective implementation is virtually impossible and they ignore the inter-linkages in credit and other agrarian markets (Bandyopadhyay, 1984, p.141; Sarap, 1991, p.161).

The working of the formal lending institutions including banks and cooperatives has also to be re-oriented to ensure a larger access of the poorer sections to institutional sources. This would require an innovative and flexible approach to rural lending to meet credit needs of the rural poor including mobile banking (Hulme and Mosley, 1996, Vol.I, p.202). The procedural hassels and transaction costs of borrowing faced by the small borrowers have to be reduced drastically for this purpose. The repayment record of the borrower rather than his ability to offer tangible collateral should be the basis of lending. Collateral requirements may be waived for small loans, say upto Rs.5000.

An important issue in lending to the rural poor is to look at their total credit requirement, i.e. productive credit as well as consumer credit demand. Neglect of the consumer credit requirement ignores an important aspect of the economic reality of the poor rural households while missing the important connection between productive credit and consumer credit demand (Lipton, 1974, p.547; Hulme and Mosley, 1996, Vol.II, p.264).

Only such an approach of easy access to total household credit requirement by formal lending institutions can help in weaning away the poor from the exploitative dependence on the rural moneylender and bring down their interest rates. The rural poor would not mind paying a higher rate of interest on institutional loans than being charged presently as long as the availability of credit is assured and prompt and meets their consumption needs as well. It, however, needs to be added that the present rates of interest being charged in the informal sector contain a large element of monopoly profit and cannot be taken as a guide to the ability of the

poor borrowers to pay. There is, however, a fair justification in raising interest rates in the formal sector to ensure its financial viability.

In recent years an influential school of thought has emerged which advocates forging deliberate links between the formal and informal segments of the credit market to expand the frontiers of the credit market and reduce the cost of financial intermediation (Adams and Vogel, 1986; Bell, 1990; Ghate, 1992; Pischke, 1991). This view supports using informal lenders as conduits for loaning by the formal sector to take advantage of their lower transaction costs.

Such an effort to institutionalize informal finance was made in the Philippines in the 1950s when the Central Bank encouraged formation of private rural unit banks, who could obtain some capital from the government and accept deposits from public. The system is believed to have worked well through the 1970s but seems to have run into trouble in the 1980s when many of these rural banks had to close their business (Pischke, 1991, pp.196-197).

A word of caution is needed in adopting such a deliberate effort to promote integration of formal and informal segments of the rural credit market irrespective of the overall socio-economic milieu in which the rural credit transactions take place (Sharma, 1998). In the context of agriculturally backward regions characterized by dominance and depenence in the relationship between the moneylenders and borrowers and existence of a high degree of monopoly power of the former using the rural moneylenders as conduits for lending institutional funds may only serve to strengthen their domination in the rural society without the benefit of lower interest rates flowing to the borrowers. Clearly the dominant agricultural moneylender as found in our study area is not a suitable agency to be used for channeling institutional funds to the rural poor. Even the scholars who advocate promoting linkages between the formal and informal credit market recognize that a competitive rather than a complementary approach is appropriate where the informal lenders exercise market power and earn rents (Ghate, 1992, p.866).

What then is the way out? In our opinion an alternative structure of informal or semi-formal credit system has to be designed and promoted, which has the advantage of closeness to the poor borrowers without the drawback of high cost bureaucratic structure of the formal credit institutions and is free from the dominance of the rural rich. Small self-help groups (SHGs) of the poor rural households and promotion of micro-finance provide conceptually the most suitable alternative credit system to meet the credit needs of the rural poor. Over the past two decades considerable experience in the working of the SHGs has been gained in different parts of the world, which strengthen the confidence in the possibility of these institutions in meeting the credit needs of the rural poor and dealing with the problem of rural poverty. The Gramin Bank experiment of Bangladesh is the best known but not the only example of these alternative credit systems. Similar success stories are being repeated in other developing countries including India (Hulme and Mosley, 1996; Karmakar, 1999.

The self-help groups have to be set up and nurtured carefully over time to become well functioning and viable units of rural credit. The banking institutions and NGOs have to perform the catalytic role in the formation and development of SHGs. NABARD has been promoting the setting up the SHGs in different parts of the country since 1992 on a pilot basis. These efforts have to be enlarged several folds to ultimately cover all villages of the country. There in lies the most significant and challenging task of institution building in the field of rural finance in the new millennium, which may be free from the inadequacies and injustices of the existing credit markets.

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